LERADO FINANCIAL GROUP
隆成金融集團

# Lerado Financial Group Company Limited

(Incorporated in Bermuda with limited liability)
Stock Code : 1225

# ANNUAL REPORT 2018

# Contents

# Corporate Information

## EXECUTIVE DIRECTORS

CHEN Chun Chieh
LEUNG Kam Por Ken
HO Kuan Lai

## INDEPENDENT NON-EXECUTIVE DIRECTORS

YU Tat Chi Michael
YANG Haihui
LAM Williamson

## AUDIT COMMITTEE

YU Tat Chi Michael *(Chairman)*
LAM Williamson
YANG Haihui

## REMUNERATION COMMITTEE

YU Tat Chi Michael *(Chairman)*
LEUNG Kam Por Ken
HO Kuan Lai
LAM Williamson
YANG Haihui

## NOMINATION COMMITTEE

HO Kuan Lai *(Chairlady)*
CHEN Chun Chieh
LAM Williamson
YU Tat Chi Michael
YANG Haihui

## COMPANY SECRETARY

MAN Yun Wah

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

## PRINCIPAL PLACE OF BUSINESS

22/F
The Wellington
184-198 Wellington Street
Central, Hong Kong

## PRINCIPAL SHARE REGISTRAR

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

## BRANCH SHARE REGISTRAR

Tricor Secretaries Limited
Level 22 Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## STOCK CODE

Hong Kong Stock Exchange: 1225

## COMPANY WEBSITE

www.lerado.com

## PRINCIPAL BANKERS

Chong Hing Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

## AUDITOR

Elite Partners CPA Limited

# Financial Highlights

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* | 2016<br>*HK$'000* |
|---|---|---|---|
| Revenue | **246,313** | 224,221 | 221,811 |
| Loss before taxation | **(64,151)** | (611,959) | (225,280) |
| As a percentage of revenue | **(26.0)%** | (272.9%) | (101.6%) |
| EBITDA | **5,859** | (560,273) | (206,782) |
| As a percentage of revenue | **2.4%** | (249.9%) | (93.2%) |
| Loss attributable to owners of the company | **(68,090)** | (534,962) | (246,457) |
| As a percentage of revenue | **(27.6)%** | (238.6%) | (111.1%) |
| Total assets | **2,196,739** | 2,292,224 | 2,496,189 |
| Total capital employed* | **2,022,125** | 2,134,142 | 2,237,061 |
| Equity attributable to owners of the company | **1,193,897** | 1,296,838 | 1,824,799 |
| Loss per share (HK cents) | **(2.96)** | (23.23) | (21.04) |
| Return on average shareholders' equity | **(5.5)%** | (34.3%) | (13.7%) |
| Current ratio | **10.6** | 13.5 | 10.4 |
| Gearing ratio | **69.3** | 64.5 | 22.6 |
| *Medical and Plastic Toys Business and Tradings of Garments* | | | |
| Average inventory turnover *(days)* | **78** | 78 | 79 |
| Average trade debtor turnover *(days)* | **114** | 116 | 98 |

* Total capital employed includes shareholders' equity and interest-bearing debts.

# Management Discussion and Analysis

## BUSINESS REVIEW

The Company is an investment holding company. The Group is principally engaged in providing financial services including securities broking, margin financing and money lending etc., as well as manufacturing and distributing children plastic toys and medical care products like mobility aid and other medical equipment.

### Medical Products and Plastic Toys Business

For the medical products and plastic toy business, Europe represented the largest export market of this segment. Sales revenue from European customers decreased by 14.5% for the year ended 31 December 2018 to HK$29.6 million, representing 44.0% of the total revenue from medical products and plastic toys business. Revenue from US customers increased by 63.7% for the year ended 31 December 2018 to HK$16.8 million, accounting for 25.0% of the total revenue from medical and plastic toys business. Revenue from the PRC customers decreased by 23.4% for the year ended 31 December 2018 to HK$7.6million, accounting for 11.4% of the total revenue from medical and plastic toys business.

In terms of products, sales revenue from medical products for the year ended 31 December 2018 was HK$47.8 million, representing an increase of 2.2% over last period and accounted for 71.1% of the total revenue from medical products and plastic toys business. The improvement was mainly due to the higher demand and more orders from overseas customers for power scooters. Sales revenue from plastic toys slightly decreased by 1.9% for the year ended 31 December 2018 to HK$19.4 million mainly due to keen market competition.

### Securities Brokerage, Margin Financing, Underwriting and Placements

Black Marble Securities Limited, a wholly-owned subsidiary of the Company ("Black Marble Securities") has generated HK$15.9 million revenue for the year ended 31 December 2018 and has decreased 41.8% over last period, representing 6.4% of the total revenue of the Group. It was because the weak market condition led the interest income generated from the margin client has been decreased by HK$6.9 million from HK$22.3 million for the year 31 December 2017 to HK$15.4 million for the year ended 31 December 2018.

### Assets Management Business

The Group wishes to provide a full range of financing services to its clients other than only securities brokerage, underwriting and placements services and money lending business. The Group has started to develop assets management business and wishes to launch different type of fund to attract new investors for scaling up the portfolio size and the Group will receive management fees and incentive fees based on the amount of assets under management, and returns of portfolios, respectively. However, the assets management business has not yet generated any revenue during the year ended 31 December 2018 due to the said business is still in development stage.

# Management Discussion and Analysis

### Money Lending and Finance Leasing

For the year ended 31 December 2018, the Group continued with its money lending business in providing secured and unsecured loans to customers comprising individuals and corporations and commenced its finance lease business in the PRC. The Group has generated HK$135.3 million interest income for the year and has increased HK$33.6 million as compared to last year, representing 54.9% of the total revenue of the Group. Directors are of the view that such business will keep contribute the income stream of the Group and has become one of the main sources of income for the Group.

### Sales of Garment Accessories

The sales of garment accessories had generated HK$27.9 million revenue for the year ended 31 December 2018 which indicated a decrease of HK$0.3 million as compared to last year and representing 11.3% of the total revenue of the Group. The business of trading of garment accessories continuously generated a stable income stream to the Group during the year.

## PROSPECTS

The Group has kept expanding in the securities market and has endeavoured to develop and expand the money lending business in Hong Kong and the PRC, as a result the securities brokerage, margin financing, underwriting and placement services and the money lending business has become the main income stream of the Group, and representing 61.4% of the total revenue of the Group for the year. The Directors believe that by taking a proactive approach in developing and diversifying the financial business sector of the Group will generate promising returns to the shareholders of the Company (the "Shareholders") in the future. In order to further expand the business, the Company will focus on the existing businesses and wish to participate in providing other financial services, including but not limited to providing corporate finance, asset management, financial planning services, which can leverage with the Group's existing financial sectors and aim at extending our financial businesses to the market of Mainland China. As such, Black Marble Securities has entered into the joint venture agreement with China Kweichow Moutai (Group) Distillery Co., Ltd, Huakang Insurance Agency Co., Ltd, First Shanghai Financial Holding Limited and Shijiazhuang Changshan Textile Co., Ltd in relation to the proposed joint venture formation under the Closer Economic Partnership Arrangement (CEPA) framework for the purpose of establishing a licensed corporation to provide full range of securities and financial services in the PRC. The joint venture company, with its proposed name of Guangdong Silk Road Securities Co., Ltd, will be established as a limited liability company, with its office to be established in the Nansha District, Guangzhou City, Guangdong Province, the PRC. The Directors consider that through the joint venture company, the Group will be able to tap into the financial services market in the PRC and capture any opportunities arising from the increasing investment and fund raising demand in the PRC. The joint venture can bring synergy effects to the Group's existing securities brokerage business and leverage with the Group's other financial businesses in the future. As at the date of this report, the joint venture shareholders are still waiting for the People's Government of Guangdong Province's written consent. Once the written consent is obtained, the joint venture shareholders will submit the formal application to the China Securities Regulatory Commission for the establishment of and the grant of regulatory licenses to the proposed joint venture company. Going forward, with a view to achieving better return and enhancing the expansion of the Group, the Group will keep expanding the existing business and look for potential investment opportunities to diversify its business scope and leverage with the Group's financial sectors. We are committed to strengthen the corporate governance of the Group, and will continue to facilitate the resumption of trading in the shares of the Company and create the greatest possible value for all the Shareholders.

# Management Discussion and Analysis

## FINANCIAL REVIEW

Consolidated revenue of the Group for the year ended 31 December 2018 was HK$246.3 million (2017: HK$224.2 million), representing an increase of 9.9% over last year. Although, the revenue from securities brokerage, underwriting and placements services and medical products and plastic toys business has decreased by HK$9.9 million, the increase in the consolidated revenue was mainly due to the increase of money lending and finance leasing business, of which the increment was HK$32.0 million.

Gross profit margin of the Group for the year was 67.9%, representing an increase of approximately 3.6 percentage points as compared to the gross profit margin of 64.3% in the last year. It was mainly due to the revenue generated from securities brokerage business and the money lending business and other financial services shared a higher gross profit ratio than the medical products and plastic toys businesses. The revenue from securities brokerage business and the money lending business represented 61.4% of the total revenue of the Group for the year, representing an increase of approximately 3.6 percentage points as compared to the last year.

Loss of the Group for the year ended 31 December 2018 was HK$67.7 million (2017: HK$535.0 million) and loss for the year attributable to owners of the Company was HK$68.1 million (2017: HK$535.0 million). The increase was mainly due to the loss on fair value changes of held-for-trading investments of HK$592.2 million was recognised for the year ended 31 December 2017, while loss on fair value change of held-for-trading investments of HK$21.8 was recognised for the year ended 31 December 2018.

## GUARANTEED PROFIT ON ACQUISITION OF SUBSIDIARIES

On 11 October 2017, the Company entered into an agreement (the “Acquisition Agreement”) with GE Oriental Financial Group Limited (“GOFG”), an independent third party of the Group, to purchase the 80% issued share capital of Genuine Oriental Wealth Management Limited (“GOWM”), by paying cash consideration of HK$13,000,000. The transaction was completed on 18 October 2017 (the “Acquisition Date”). GOWM is principally engaged in providing insurance brokerage service. Pursuant to the Acquisition Agreement, GOFG warrants and represents to the Group that for the period from 1 April 2017 to 31 March 2018, the net profit after tax of GOWM shall not be less than HK$2 million (the “Profit Guarantee”). According to the audited report of GOWM received in June 2018, the Profit Guarantee was achieved. As at 31 December 2017, the fair value of contingent consideration receivable was approximately HK$10,249,000. Thus, the Group had recognised a loss of fair value change in contingent consideration of approximately HK$10,249,000 for the year ended 31 December 2018.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a conservative policy in its financial management and maintains a solid financial position. Cash and cash equivalents of the Group as at 31 December 2018 decreased by HK$46.6 million to HK$319.4 million as compared to HK$366.0 million as at 31 December 2017. The Group has bank borrowings of HK$3.4 million (2017: HK$4.4 million), bank overdrafts of HK$5.0 million (2017: HK$5.0 million), term loan of HK$20.0 million (2017: nil) and bond payable of HK$798.9 million (2017: HK$827.7 million) as at 31 December 2018. As at 31 December 2018, the Group had net current assets of HK$1,832.8 million (31 December 2017: HK$1,957.8 million) and a current ratio of 10.6 (31 December 2017: 13.5). Average trade receivable turnovers and average inventory turnovers for the medical products and plastic toys business and trading of garments for the year ended 31 December 2018 were 114 days (31 December 2017: 116 days) and 78 days (31 December 2017: 78 days) respectively. The Group's gearing ratio as at 31 December 2018 was 69.3% (2017: 64.5%).

## SIGNIFICANT INVESTMENTS

Since there was no held-for-trading investments and other investments held by the Group valued more than 5% of the total assets of the Group as at 31 December 2018, there were no significant investments held by the Group. Details of the held-for-trading investments held by the Group and the fair value changes of the held-for-trading investments for the year are set out in note 26 to the financial statements.

## RESULT OF RIGHTS ISSUE

On 29 June 2016, the Company proposed to raise gross proceeds of not less than approximately HK$307.1 million before expenses and not more than approximately HK$309.6 million before expenses, by way of rights issue of not less than 1,535,482,758 rights shares and not more than 1,547,952,006 rights shares at the subscription price of HK$0.20 per rights share on the basis of two rights shares for every one Consolidated Share held on the record date (the "Rights Issue"). On 21 September 2016, 1,535,482,758 ordinary shares were allotted and issued pursuant to the Rights Issue. The net proceeds for the Rights Issue were approximately HK$301 million. Up to the date of this report, proceeds from the Rights Issue (i) for the HK$150 million seed capital investment and operation in the asset management company, the Group has fully injected into the fund and operation in the asset management company; (ii) for the HK$80 million in developing the finance lease business in the PRC, the Group has utilised as planned; and (iii) remaining balance of HK$71 million for general working capital of the Company has been utilised HK$30 million and HK$41 million in securities brokerage business and money lending business respectively.

## PLEDGE OF ASSETS

The bank borrowings were secured by personal guarantee and properties provided by a director of a subsidiary who is not a director of the Company, and guarantee provided by The Government of the Hong Kong Special Administrative Region under the Small and Medium Enterprise Loan Guarantee Scheme and charges over the Group's investment properties of approximately HK$8.1 million (2017: HK$9.4 million). The term loan of approximately HK$20.0 million (2017: nil) was secured by the Group's investment properties of approximately HK$46.8 million (2017: nil) as at 31 December 2018.

## EXCHANGE RISK EXPOSURE

The Group's monetary assets, liabilities and transactions are mainly denominated in United States dollar, Renminbi, Hong Kong dollar, Euro and New Taiwan dollar. In the event that Renminbi appreciates, the Group will be affected directly. Although the Group currently does not maintain any hedging policy to hedge against foreign exchange exposure that may arise from the above transactions, the management team continuously assesses the foreign currency exposure, with an aim to minimize the impact of foreign exchange fluctuation on the Group's business operations.

## EQUITY PRICE RISK EXPOSURE

The Group is exposed to equity price risk through its investments in listed securities. Although, the Group currently does not maintain any hedging policy to hedge against the equity price risk, the management team manages this exposure by monitoring the price movements and the changes in market conditions that may affect the value of the investments and will consider taking appropriate actions to minimize the risk.

## CONTINGENT LIABILITY

As at 31 December 2018, the Company did not have any significant contingent liabilities.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed a total workforce of around 260 staff members, of which about 210 worked in the PRC and the remaining in Hong Kong. Apart from basic salaries, discretionary bonus and contribution to retirement benefits schemes, share options may also be granted to staff with reference to the individual's performance. Moreover, the Group also provides internal and external training to its staff to enable them to achieve self-improvement and to enhance their job related skills.

# Directors' Profile

## EXECUTIVE DIRECTORS

**Mr. CHEN Chun Chieh**, aged 43, was appointed an Executive Director of the Company on 3 April 2008. Mr. Chen has been working for the Group since 2002. He obtained a master's degree in business administration from Lawrence Technical University, U.S.A. Mr. Chen is responsible for the strategic planning and finance of the Group.

**Mr. Leung Kam Por, Ken**, aged 39, holds a bachelor of engineering degree from Hong Kong Polytechnic University. Mr. Leung held a number of senior positions in various organizations including management consulting firm, licensed corporation and conglomerate. He has over 15 years of senior managerial experience of which 4 years working for licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Future Ordinance, and 3 years working as a director of a sizable company which mainly carries on money lending business. He also has extensive experience in different industries and is specializing in manufacturing, supply chain, finance, money lending, business consultancy and general management.

**Ms. Ho Kuan Lai**, aged 47, is currently an associate member of the Singapore Institute of Chartered Secretarial & Administrator. She had been a non-executive director of Laura Ashley Holdings (a company listed on the main board of the London Stock Exchange, stock code: ALY) between 17 June 2013 and 3 August 2014, and an executive director of Morning Star Resources Limited (a company listed on the main board of the Stock Exchange, stock code: 542) between 1 February 2010 and 7 October 2010 and previously held senior management position of a sizable group of companies in Malaysia and United Kingdom. Ms. Ho has abundant experience in management of sizable group of companies.

# Directors' Profile

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Yu Tat Chi Michael**, aged 54. Mr. Yu holds a bachelor of commerce degree from the University of New South Wales, Australia. He is a fellow member of the CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Yu is also a founding member of The Hong Kong Independent Non-Executive Director Association. Mr. Yu has many years of experience in accounting, corporate finance and asset management. He had held senior management positions in several listed companies in Hong Kong. He is currently an independent non-executive director of Golden Resources Development International Limited (a company listed on the Main Board of the Stock Exchange, stock code: 677) since 30 August 2012, EVOC Intelligent Technology Company Limited (a company listed on the Main Board of the Stock Exchange, stock code: 2308) since 30 May 2016, Applied Development Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 519) since 14 September 2016, and China Netcom Technology Holdings Limited (a company listed on Growth Enterprise Market of the Stock Exchange, stock code: 8071) since 31 August 2017. Mr. Yu has extensive experience in the field of accounting. The Company considers that Mr. Yu can provide independent and comprehensive advice to the Company.

**Mr. Yang Haihui**, aged 27. Mr. Yang holds a bachelor of software engineering from the Beijing Normal University, Zhuhai. He currently serves managerial position of Jinshang Capital Investment Management Co. Ltd., primarily responsible for risk management in terms of investment, lending and product portfolio. He has extensive experience in risk management. The Company considers that Mr. Yang can provide independent advice to the Company and enhance the risk management of the Company.

**Mr. Lam Williamson**, aged 44, is a fellow member of The Hong Kong Institute of Certified Public Accountants and a member of the CPA (Australia). He holds a bachelor of business degree from Monash University, Australia and a master of professional accounting degree from the Hong Kong Polytechnic University. Mr. Lam had held directorships and senior finance positions in various listed companies in Hong Kong. Mr. Lam is currently an independent non-executive director of Elife Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 223) since 1 January 2011.

# Corporate Governance Report

**The board (the "Board") of directors (the "Directors") of Lerado Financial Group Company Limited (the "Company") is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2018.**

## CORPORATE GOVERNANCE CODE

The Directors consider that the Company had complied with Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2018, save for the deviations as stated below: Under the Code provision A.2.1 of the Code, the rules of the chairman and the chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive of the Company should be clearly established and set out in writing. Throughout the year ended 31 December 2018, the Company did not have chairman of the Board and chief executive officer. The Board has been looking for suitable candidates to fill the vacancies.

## THE BOARD

### Responsibilities

The Board is responsible for overseeing the overall development of the Company's business with the objective of enhancing shareholders' value including setting and approving the Company's strategic plan, considering substantial investments, reviewing the Group's financial performance and developing and reviewing the Group's policies and practices on corporate governance. The Board has delegated to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established board committees and has delegated to these board committees various responsibilities as set out in their respective terms of reference.

All directors shall ensure that they carry out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

The Directors are aware of the requirements under the applicable regulations and the Listing Rules for the handling and dissemination of inside information. All the inside information identified by the Directors shall be published and disclosed to the public timely through the Company's publications and communications, unless the information falls within safe harbours as prescribed in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

# Corporate Governance Report

## Board Composition

As at the date of this Annual Report, the Board comprises 6 members in total, with 3 executive Directors and 3 independent non-executive Directors.

The composition of the Board during the year ended 31 December 2018 and up to the date of this Annual Report is set out below:

***Executive Directors***

CHEN Chun Chieh
HUANG Shen Kai (resigned on 6 April 2018)
LAI Kin Chung, Kenneth (resigned on 28 January 2019)
HO Kuan Lai
LEUNG Kam Por Ken (appointed on 28 January 2019)

***Independent Non-Executive Directors***

LAM Chak Man (resigned on 6 February 2018)
YE Jianxin (resigned on 20 July 2018)
CHERN Shyh Feng (resigned on 6 February 2018)
HSU Hong Te (resigned on 6 February 2018)
YU Tat Chi Michael (appointed on 6 February 2018)
YANG Haihui (appointed on 6 February 2018)
LAM Williamson (appointed on 20 July 2018)

The biographical details of the current Board members are set out under the section headed "**Directors' Profile**" on pages 9 to 10 of this report. Each of the independent non-executive Directors is appointed for a term of three years.

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The Company is in compliance with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive directors represented over one-third of the Board.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All Directors, including the independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

### Appointment and Re-election of Directors

In accordance with the Company's bye-laws, all Directors are subject to retirement by rotation at least once every three years and any new director appointed by the Board to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by the shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's bye-laws. The Nomination Committee of the Company is responsible for reviewing the board composition, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

## BOARD MEETINGS

### Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notice of regular Board meetings is served to all directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each board meeting or committee meeting to keep directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management of the Company where necessary.

The senior management, including company secretary of the Company (the "**Company Secretary**") attend all regular board meetings and where necessary, other board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible for taking and keeping minutes of all board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and final versions are open for directors' inspection.

The Company's bye-laws contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

## Directors' Attendance Records

During the year ended 31 December 2018, 4 regular board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each director at the board meetings and the annual general meeting for the year 2018 (the "**2018 AGM**") during the year ended 31 December 2018 are set out below:

| Name of Director | Attendance/Number of Meetings | |
|---|---|---|
| | Board Meetings | 2018 AGM |
| Chen Chun Chieh | 4/4 | 0/1 |
| Huang Shen Kai (resigned on 6 April 2018) | 1/1 | –/– |
| Lai Kin Chung, Kenneth (resigned on 28 January 2019) | 4/4 | 1/1 |
| Ho Kuan Lai | 4/4 | 1/1 |
| Leung Kam Por Ken (appointed on 28 January 2019) | –/– | –/– |
| Lam Chak Man (resigned on 6 February 2018) | –/– | –/– |
| Ye Jianxin (resigned on 20 July 2018) | 1/2 | 0/1 |
| Chern Shyh Feng (resigned on 6 February 2018) | –/– | –/– |
| Hsu Hong Te (resigned on 6 February 2018) | –/– | –/– |
| Yu Tat Chi Michael (appointed on 6 February 2018) | 4/4 | 1/1 |
| Yang Haihui (appointed on 6 February 2018) | 4/4 | 0/1 |
| Lam Williamson (appointed on 20 July 2018) | 2/2 | –/– |

## Directors' Training

Directors must keep abreast of their collective responsibilities and are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide to each newly appointed director or alternative director an induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Group's businesses and the statutory regulatory obligations of a director of a listed company as well as the Company's constitutional documents to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements.

The Company has provided information related to the changes in the Listing Rules to the directors to update and refresh the directors' knowledge on the latest developments to the Listing Rules. The Company will continuously update the directors on the latest developments to the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance the directors' awareness of good corporate governance practices.

## Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

# Corporate Governance Report

Specific enquiry has been made of all the directors and the directors have confirmed that they had complied with the Model Code throughout the year ended 31 December 2018.

## DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major company matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that board procedures and all applicable laws and regulations are followed. Each director is able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers. The Board also has the full support of the senior management for the discharge of its responsibilities.

## BOARD COMMITTEES

As an integral part of sound corporate governance practices, the Board has established three committees, namely, the Nomination Committee, the Remuneration Committee and the Audit Committee for overseeing particular aspects of the Company's affairs. All board committees of the Company are established with defined written terms of reference which are available for the reference of the shareholders and the public on the websites of the Company and the Stock Exchange. Each of the Nomination Committee, Remuneration Committee and Audit Committee is provided with sufficient resources to discharge its duties and, upon reasonable request, is able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

### Nomination Committee

As at the date of this report, the Nomination Committee comprises 5 members, namely Ms. Ho Kuan Lai, Mr. Chen Chun Chieh, Mr. Yu Tat Chi, Mr. Yang Haihui and Mr. Lam Williamson, the majority of which are independent non-executive Directors, with Ms. Ho Kuan Lai acting as the chairlady.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of the independent non-executive Directors.

The Nomination Committee is also responsible to review the Board Diversity Policy, as appropriate; and review the measurable objectives that the board has set for implementing the Board Diversity Policy, and the progress on achieving the objectives; and make disclosure of its review results in the Corporate Governance Report annually.

During the year ended 31 December 2018, the Nomination Committee was primarily responsible:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- to identify individuals suitably qualified to become board members and select or make recommendations to the Board on selection of individuals nominated for directorships;
- to assess the independence of the independent non-executive directors, having regard to the requirements under the applicable laws, rules and regulations;
- to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors and, in particular, the chairman and the CEO of the Company; and
- to review the policy on board diversity and any measurable objectives for implementing such policy.

The terms of reference of the Nomination Committee and the authority delegated by the Board is available on the Stock Exchange and the Company's website.

The Nomination Committee will meet at least once per year according to its terms of reference. A Nomination Committee meeting was held during the year under review, details of attendance are set out below:

| **Nomination Committee Members** | **Attendance/ Number of Meeting** |
|---|---|
| Lai Kin Chung, Kenneth (resigned on 28 January 2019) | 1/1 |
| Chen Chun Chieh | 1/1 |
| Ho Kuan Lai | 1/1 |
| Lam Chak Man (resigned on 6 February 2018) | –/– |
| Ye Jianxin (resigned on 20 July 2018) | 1/1 |
| Chern Shyh Feng (resigned on 6 February 2018) | –/– |
| Hsu Hong Te (resigned on 6 February 2018) | –/– |
| Yu Tat Chi Michael (appointed on 6 February 2018) | –/– |
| Yang Haihui (appointed on 6 February 2018) | 1/1 |
| Lam Williamson (appointed on 20 July 2018) | –/– |

### Remuneration Committee

As at the date of this report, the Remuneration Committee comprises 5 members, namely Mr. Yu Tat Chi Michael, Ms. Ho Kuan Lai, Mr. Leung Kam Por Ken, Mr. Yang Haihui and Mr. Lam Williamson, the majority of which are independent non-executive Directors, with Mr. Yu Tat Chi Michael acting as the chairman.

The Remuneration Committee is responsible for making recommendations to the Directors' remuneration and other benefits. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that level of their remuneration and compensation is reasonable. Its written terms of reference are in line with the provisions of the CG Code.

# Corporate Governance Report

During the year ended 31 December 2018, the Remuneration Committee was primarily responsible for:

- making recommendations to the Board on the Company's policy and structure for all remunerations of Directors and senior management and on the establishment of formal and transparent procedures for developing policies on all such remunerations;
- recommending to the Board the specific remuneration packages of all executive directors and senior management members of the Company; and
- reviewing and proposing performance-based remunerations by reference to corporate goals and objectives resolved by the Board from time to time.

The terms of reference of the Remuneration Committee explaining its role and the authority delegated to it by the Board is available on the Stock Exchange and the Company's website.

The Remuneration Committee held one meeting during the year ended 31 December 2018 and the details of attendance are set out below:

| Remuneration Committee Members | Attendance/ Number of Meeting |
|---|---|
| Chen Chun Chieh | 1/1 |
| Ho Kuan Lai | 1/1 |
| Leung Kam Por Ken (appointed on 28 January 2019) | –/– |
| Lam Chak Man (resigned on 6 February 2018) | –/– |
| Ye Jianxin (resigned on 20 July 2018) | 1/1 |
| Chern Shyh Feng (resigned on 6 February 2018) | –/– |
| Hsu Hong Te (resigned on 6 February 2018) | –/– |
| Yu Tat Chi Michael (appointed on 6 February 2018) | 1/1 |
| Yang Haihui (appointed on 6 February 2018) | 1/1 |
| Lam Williamson (appointed on 20 July 2018) | –/– |

### Audit Committee

As at the date of this report, the Audit Committee comprises 3 members, namely Mr. Yu Tat Chi Michael, Mr. Yang Haihui and Mr. Lam Williamson, all of whom are independent non-executive Directors, with Mr. Yu Tat Chi Michael acting as the chairman.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system and to provide advice and comments to the Board.

During the year ended 31 December 2018, the Audit Committee was primarily responsible:

- to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

- to develop and implement policy on the engagement of an external auditor to supply non-audit services;

- to monitor integrity of financial statements of the Company and the Company's annual report and accounts and half-year reports and to review significant financial reporting judgements contained in them;

- to review the Company's financial controls, internal control and risk management systems;

- to discuss with management the system of internal controls and risk management and ensure that management has discharged its duty to have an effective internal control system and risk management;

- to review the Group's financial and accounting policies and practices; and

- to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of internal controls and risk management and management's response, and to ensure that the Board provides a timely response to the issues raised.

The Audit Committee held 2 meetings during the year ended 31 December 2018 and the details of attendance are set out below:

| **Audit Committee Members** | **Attendance/ Number of Meeting** |
|---|---|
| Lam Chak Man (resigned on 6 February 2018) | –/– |
| Ye Jianxin (resigned on 20 July 2018) | 1/1 |
| Chern Shyh Feng (resigned on 6 February 2018) | –/– |
| Hsu Hong Te (resigned on 6 February 2018) | –/– |
| Yu Tat Chi Michael (appointed on 6 February 2018) | 2/2 |
| Yang Haihui (appointed on 6 February 2018) | 2/2 |
| Lam Williamson (appointed on 20 July 2018) | 1/1 |

### Corporate Governance Functions

During the period under review, the Board is responsible for determining the policy for the corporate governance of the Company performing the corporate governance duties as below:

- to develop and review the Group's policies and practices on corporate governance and make recommendations;

- to review and monitor the training and continuous professional development of the directors and senior management;

- to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);

- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Group; and

- to review the Group's compliance with the CG Code and disclosure requirements in the Corporate Governance Report.

## ACCOUNTABILITY AND AUDIT

### Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management of the Company has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

### Risk Management and Internal Controls

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board is responsible for maintaining an adequate risk management and internal control system to safeguard shareholder investments and Company assets and with the support of the Audit Committee, reviewing the effectiveness of the risk management and internal control system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

The Company has also engaged an external professional firm for the purpose of conducting internal audit function, who has conducted a review of the Group's operational control and risk management.

## COMPANY SECRETARY

Mr. Man Yun Wah has been nominated by RHT Corporate Advisory (HK) Limited to act as the Company Secretary, who has complied with the requirements of the Listing Rules. He has been contacting with the Board of the Company directly in respect of company secretarial matters.

### External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements is set out in the "**Independent Auditor's Report**" on page 28.

During the year ended 31 December 2018, the remunerations paid/payable to the Company's external auditors, Elite Partners CPA Limited are set out below:

| **Type of Services** | **Fees Paid/ Payable** *(HK$)* |
|---|---|
| *Audit Services* | |
| – Audit of annual financial statements | 1,050,000 |
| Total | 1,050,000 |

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders face-to-face dialogue with the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, the Remuneration Committee and the Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent board committee, are available to answer questions at shareholders' meetings.

The annual general meeting regarding the financial results for the year ended 31 December 2018 (the "**AGM**") will be held on 28 May 2019. The notice of the AGM will be sent to shareholders at least 20 clear business days before the AGM.

## SHAREHOLDER RIGHTS

### Convening a special general meeting by shareholders

***Procedures for shareholders to convene a special general meeting (including making proposals/moving a resolution at the special general meeting)***

- Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to the Board or the Company Secretary to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at a special general meeting.

- Eligible Shareholders who wish to convene a special general meeting for the purpose of making proposals or moving a resolution at a special general meeting must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong.

- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene a special general meeting, the agenda proposed to be included the details of the business(es) proposed to be transacted in the special general meeting, signed by the Eligible Shareholder(s) concerned.

- The Company will check the Requisition and the identity and the shareholding of the Eligible Shareholder will be verified with the Company's branch share registrar. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene a special general meeting within 2 months and/or include the proposal or the resolution proposed by the Eligible Shareholder at the special general meeting after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for a special general meeting and/or include the proposal or the resolution proposed by the Eligible Shareholder at the special general meeting.

- If within 21 days of the deposit of the Requisition, the Board has not advised the Eligible Shareholders of any outcome to the contrary and fails to proceed to convene a special general meeting, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the bye-laws, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

### Making enquiry to the Board

Shareholders of the Company may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong by post to 22/F, The Wellington, 184-198 Wellington Street, Central, Hong Kong or email to public@lerado.com.hk.

# Corporate Governance Report

## Investors Relationship

***Bye-laws***

There has not been any significant change to the Company's bye-laws during the year ended 31 December 2017.

***Investors Communication Policy***

The Company regards the communication with institutional investors as important means to enhance the transparency of the Company and collect views and feedbacks from institutional investors. To promote effective communication, the Company maintains a website at www.lerado.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted are available for public access.

Shareholders, investors and the media can make enquiries to the Company through the following means:

| | |
|---|---|
| Telephone number: | (852) 2868 9918 |
| By post: | 22/F<br>The Wellington<br>184-198 Wellington Street<br>Central, Hong Kong |
| Attention: | Investor Relations Department |
| By email: | public@lerado.com.hk |

## Disclaimer

The contents of this section headed "Shareholders' Rights" are for reference and disclosure compliance purposes only. The information does not represent and should not be regarded as legal or other professional advice from the Company to the shareholders. Shareholders should seek their own independent legal or other professional advice as to their rights as shareholders of the Company. The Company disclaims all liabilities and losses incurred by its shareholders in reliance on any contents of this section headed "Shareholders' Rights".

# Directors' Report

The Directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2018.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 41 to the consolidated financial statements.

Descriptions and reviews of principal risks and uncertainties that the Group may be facing are set out on pages 116 to 122 of this annual report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 34 and 35 of the annual report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018.

## PROPERTY, PLANT AND EQUIPMENT

The Group's leasehold land and buildings were revalued at 31 December 2018. The revaluation resulted in gain of HK$1,540,000 which was credited to property revaluation reserve at 31 December 2018.

Details of movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 31 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders at the end of the reporting period were as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Contributed surplus | **244,461** | 244,461 |
| Accumulated profits/(loss) | **(237,985)** | 22,566 |
| | **6,476** | 267,027 |

# Directors' Report

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

## DIVIDEND POLICY

The Dividend Distribution Policy of the Company establishes the principles to ascertain amounts that can be distributed to its shareholders as dividend by the Company. Subject to the applicable law and its Bye-Laws, the Company's dividend payout will be determined based on available financial resources, investment requirements and taking into account optimal shareholders return.

While determining the nature and quantum of dividend payout, the Board would take into account the following factors, inter alia:

- Cash flow position of the Company
- Earnings stability
- Long term investments
- Future cash requirements for development
- Economic environment
- Industry outlook for the future years
- Changes in the Government policies, industry specific rulings & regulatory provisions

## DIRECTORS

The directors of the Company during the year ended 31 December 2018 and up to the date of this report were:

### Executive Directors:

Mr. Chen Chun Chieh
Mr. Huang Shen Kai (resigned on 6 April 2018)
Mr. Lai Kin Chung, Kenneth (resigned on 28 January 2019)
Ms. Ho Kuan Lai
Mr. Leung Kam Por Ken (appointed on 28 January 2019)

### Independent non-executive Directors

Mr. Lam Chak Man (resigned on 6 February 2018)
Mr. Ye Jianxin (resigned on 20 July 2018)
Mr. Chern Shyh Feng (resigned on 6 February 2018)
Mr. Hsu Hong Te (resigned on 6 February 2018)
Mr. Yu Tat Chi Michael (appointed on 6 February 2018)
Mr. Yang Haihui (appointed on 6 February 2018)
Mr. Lam Williamson (appointed on 20 July 2018)

In accordance with clauses 86 and 87 of the Company's bye-laws, Mr. Chen Chun Chieh, Mr. Leung Kam Por Ken, Mr. Yang Haihui and Mr. Lam Williamson will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other directors will continue in office.

The terms of office of all independent non-executive Directors are subject to retirement by rotation in accordance with the Company's bye-laws.

## DIRECTORS' SERVICE CONTRACTS

No director has entered into service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, none of the Directors, Supervisor or the chief executive of the Company had interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "**SFO**") which shall be recorded and maintained in the register pursuant to section 352 of the SFO, or which shall be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**").

## SHARE OPTIONS

Particulars of the share option schemes and the movements in the share options of the Company are set out in note 32 to the consolidated financial statements.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than share option schemes mentioned above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of Directors, the following Shareholders had notified the Company of relevant interests in the issued share capital of the Company.

### Long position in shares and underlying shares of the Company

| Name of shareholder | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Mr. Mak Kwong Yiu | Beneficial owner | 217,072,320 | 9.40% |
| Mr. Lai Shu Fun, Francis Alvin *(Note 1)* | Beneficial owner | 180,000,000 | 7.82% |

*Note:*

(1) Mr. Lai Shu Fun, Francis Alvin owns shares through his wholly owned Opus Platinum Growth Fund.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 31 December 2018.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

## CONNECTED TRANSACTIONS

Other than those disclosed in note 36 to the consolidated financial statements, there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Other than disclosed in note 36, no contracts of significance, to which the Company or its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end or at any time during the year ended 31 December 2018.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers represented approximately 15.9% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 6.8% of total sales. The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 14.2% of the total purchases of the Group and the purchases attributable to the Group's largest supplier were approximately 5.1%.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, owning more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers of the Group.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the directors of the Company are decided by the board of directors, who are authorised by the shareholders in the annual general meeting, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted share option schemes as an incentive to directors and eligible employees, details of these schemes are set out in note 32 to the consolidated financial statements.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group endeavors to monitor and minimize impact to the environment. For the purpose of disclosing the information in relation to environmental, social and governance ("**ESG**") in accordance with the ESG Reporting Guide in Appendix 27 to the Listing Rules, an ESG report of the Company will be published within three months after the publication of the annual report of the Company.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2018.

## AUDITOR

Deloitte Touche Tohmatsu, who acted as the auditor of the Company for the past three years, resigned with effect on 15 December 2017 and Elite Partners CPA Limited was appointed as the auditor of the Company with effect from 5 January 2018. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Elite Partners CPA Limited as the auditor of the Company.

On behalf of the board

**Ho Kuan Lai**
*Executive Director*

29 March 2019

# Independent Auditor's Report

elite partners
CERTIFIED PUBLIC ACCOUNTANTS

**TO THE MEMBERS OF LERADO FINANCIAL GROUP COMPANY LIMITED**
*(incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of Lerado Financial Group Company Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 34 to 133, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment assessment of goodwill*** | |
| We identified the valuation of goodwill as a key audit matter due to the complexity and significant judgments involved in the management's impairment assessment process.<br><br>As detailed in the notes 4 and 18 to the consolidated financial statements, in determining the amount of impairment for goodwill requires an estimation of the recoverable amount, which is the value in use of the cash-generating unit ("CGU") to which goodwill has been allocated and the Group engages an independent external valuer to perform such valuation. The value in use is based on cash flow forecast of each CGUs of the Group and take into account the key assumptions used by management which including discount rate, growth rate, budgeted sales, gross margin and inventories price inflation.<br><br>For the year ended 31 December 2018, no impairment loss was recognised in goodwill for trading garment and other financial services CGU as the recoverable amount of both segment based on value in use calculation is more than the carrying of amount. | Our procedures in relation to impairment assessment of goodwill included:<br><br>• Understanding how the management perform impairment assessment including the preparation of cash flow forecast and assumptions estimation;<br><br>• Evaluating the independent external valuer's competence, capabilities and objectivity;<br><br>• Evaluating the appropriateness of the key assumptions in the cash flow forecast, including growth rate, budgeted sales, gross margin and inventories price inflation, by discussing with the management with reference to their expectations for market development and comparing with the most recent financial performance available;<br><br>• Assessing the appropriateness of the discount rate used, and performing sensitivity analyses on discount rate and assessing the impact on the value in use; and<br><br>• Evaluating the historical accuracy of the cash flow forecast and actual performance for the year and future prospect from the CGU. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment assessment under expected credit loss ("ECL") of HKFRS 9 for loan receivables margin client receivables included in trade receivable*** | |

**Key audit matter**

We identified the impairment assessment under ECL of HKFRS 9 for margin client receivables and loan receivables as a key audit matter due to its significance to the consolidated financial statements and the significant management estimates and judgement required in the measurement.

- Determination of the criteria for significant increase in credit risk ("SICR");
- Selection of models and assumptions used in the ECL models, including Probability of default ("PD") and Loss given default ("LGD"); and
- Establishing the relative probability weightings of forward-looking scenarios.

In addition, the ECL measurement involves management estimates and judgement in the consideration of various factors, including the realisable value of securities or collaterals from clients and their guarantors which are held by the Group and subsequent settlement and additional collaterals received.

The total gross amount of loan receivables is HK$1,346.7 million with impairment provision of HK40.7 million as at 31 December 2018 as disclosed in notes 24 to the consolidated financial statements.

The total gross amount of margin client receivables is HK$209.9 million with impairment provision of HK33.9 million as at 31 December 2018 as disclosed in notes 23 to the consolidated financial statements.

**How our audit addressed the key audit matter**

Our procedures in relation to impairment assessment under ECL of HKFRS 9 for margin client receivables and loan receivables include:

- Understanding the established policies and procedures on impairment assessment of the Group in relation to the application of ECL model under HKFRS 9, including model set up and approval, and selection and application of assumptions and inputs into the model;
- Assessing the reasonableness and appropriateness of the management's judgement on staging criteria for determining if a SICR has occurred or the financial asset is credit-impaired and the basis for classification of exposures into the 3 stages as required by HKFRS 9;
- Examining supporting documents for a selection of margin client receivables for the classification of loan exposures with a SICR (stages 1 or 2) or which have been credit-impaired (stage 3) as at the end of the reporting period;
- Evaluating the reasonableness and appropriateness of the key models and the critical assumptions, inputs and parameters used in the model;
- Examining significant data inputs into the ECL model, including PD and LGD after taking into consideration forward looking information; and
- For a sample of margin client receivables and loan receivables classified as stage 3, assessing the reasonableness of the estimated future cash flows and the fair value of collateral received from clients or their guarantors, and examining underlying documentation supporting the fair value of the collateral received from clients or their guarantors and any settlement of secured margin loans subsequent to the end of the reporting period.

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Yip Kai Yin, with Practising Certificate number P05131.

**Elite Partners CPA Limited**
*Certified Public Accountants*
Hong Kong
29 March 2019

10/F., 8 Observatory Road
Tsim Sha Tsui
Kowloon, Hong Kong

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2018*

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Revenue | | **246,313** | 224,221 |
| Gross proceeds from sale of financial asset at fair value through profit or loss ("FVTPL") | | **16,424** | 143,640 |
| | | **262,737** | 367,861 |
| Revenue | 5 | | |
| – Goods and service | | **112,623** | 122,483 |
| – Interest | | **133,690** | 101,738 |
| Total revenue | | **246,313** | 224,221 |
| Cost of inventories and services | | **(79,017)** | (79,970) |
| | | **167,296** | 144,251 |
| Other income | 6 | **9,025** | 12,856 |
| Other gains and losses | 7 | **(33,029)** | (600,264) |
| Impairment loss, net of reversal | | **(37,693)** | (4,733) |
| Marketing and distribution costs | | **(9,508)** | (8,813) |
| Research and development expenses | | **(49)** | (899) |
| Administrative expenses | | **(96,130)** | (102,880) |
| Share of profit (loss) of an associate | | **167** | (5,907) |
| Finance costs | 8 | **(64,230)** | (45,570) |
| Loss before taxation | | **(64,151)** | (611,959) |
| Income tax (expense) credit | 9 | **(3,509)** | 76,959 |
| Loss for the year | 10 | **(67,660)** | (535,000) |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Gain on revaluation of land and buildings | | **1,540** | 3,996 |
| Recognition of deferred tax asset (liability) arising on revaluation of land and buildings | | **(385)** | – |
| | | **1,155** | 3,996 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange differences arising from translation | | **(3,964)** | 3,005 |
| Other comprehensive (expense) income for the year | | **(2,809)** | 7,001 |
| Total comprehensive expense for the year | | **(70,469)** | (527,999) |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2018*

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Loss for the year attributable to: | | | |
| Owners of the Company | | **(68,090)** | (534,962) |
| Non-controlling interests | | **430** | (38) |
| | | **(67,660)** | (535,000) |
| Total comprehensive expense attributable to: | | | |
| Owners of the Company | | **(70,899)** | (527,961) |
| Non-controlling interests | | **430** | (38) |
| | | **(70,469)** | (527,999) |
| **Loss per share** | *14* | | |
| – Basic | | **(HK2.96 cents)** | (HK23.23 cents) |
| – Diluted | | **(HK2.96 cents)** | (HK23.23 cents) |

# Consolidated Statement of Financial Position

*At 31 December 2018*

| | NOTES | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 15 | **33,184** | 36,242 |
| Prepaid lease payments | 16 | **12,919** | 14,408 |
| Investment properties | 17 | **54,900** | 71,676 |
| Goodwill | 18 | **35,315** | 35,315 |
| Investment in an associate | 19 | **167** | – |
| Equity instruments at FVTPL | 26 | **9,644** | – |
| Available-for-sale investments | 20 | **–** | 1,000 |
| Deposits paid for acquisition of subsidiaries | | **6,700** | – |
| Deposits paid for forming of an associate | 21 | **10,028** | 10,028 |
| Statutory deposits placed with clearing house | | **205** | 230 |
| Deferred tax assets | 30 | **7,401** | – |
| Finance lease receivables | 25 | **1,676** | 9,315 |
| | | **172,139** | 178,214 |
| Current assets | | | |
| Inventories | 22 | **14,851** | 19,022 |
| Trade and other receivables and prepayments | 23 | **287,415** | 279,952 |
| Finance lease receivables | 25 | **10,208** | 6,881 |
| Loans receivables | 24 | **1,305,980** | 1,323,470 |
| Tax recoverable | | **1,276** | – |
| Prepaid lease payments | 16 | **400** | 420 |
| Contingent consideration | 33 | **–** | 10,249 |
| Financial asset at FVTPL | 26 | **46,559** | 68,604 |
| Bank balances (trust and segregated accounts) | 27 | **38,550** | 39,374 |
| Bank balances (general accounts) and cash | 27 | **319,361** | 366,038 |
| | | **2,024,600** | 2,114,010 |
| Current liabilities | | | |
| Trade and other payables and accruals | 28 | **142,231** | 130,200 |
| Obligation under finance lease | | **278** | – |
| Taxation payable | | **20,862** | 16,578 |
| Borrowings | 29 | **28,418** | 9,384 |
| | | **191,789** | 156,162 |
| Net current assets | | **1,832,811** | 1,957,848 |
| | | **2,004,950** | 2,136,062 |

# Consolidated Statement of Financial Position

*At 31 December 2018*

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 31 | **690,968** | 690,968 |
| Reserves | | **502,929** | 605,870 |
| | | **1,193,897** | 1,296,838 |
| Non-controlling interests | | **630** | 200 |
| Total equity | | **1,194,527** | 1,297,038 |
| Non-current liabilities | | | |
| Bonds | 29 | **798,902** | 827,720 |
| Deferred tax liabilities | 30 | **11,521** | 11,304 |
| | | **810,423** | 839,024 |
| | | **2,004,950** | 2,136,062 |

The consolidated financial statements on pages 34 to 133 were approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

**Leung Kam Por, Ken**
*DIRECTOR*

**Ho Kuan Lai**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2018*

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$'000* | Share premium *HK$'000* | Special reserve *HK$'000* | Property revaluation reserve *HK$'000* | Translation reserve *HK$'000* | Share option reserve *HK$'000* | Capital redemption reserve *HK$'000* | Retained profits *HK$'000* | Total *HK$'000* | Non-controlling interests *HK$'000* | Total *HK$'000* |
| At 1 January 2017 | 690,968 | 352,753 | 38,510 | 65,020 | 3,535 | 3,341 | 1,270 | 669,402 | 1,824,799 | –* | 1,824,799 |
| Loss for the year | – | – | – | – | – | – | – | (534,962) | (534,962) | (38) | (535,000) |
| Exchange differences arising from translation | – | – | – | – | 3,005 | – | – | – | 3,005 | – | 3,005 |
| Revaluation gain on land and buildings classified as property, plant and equipment | – | – | – | 3,996 | – | – | – | – | 3,996 | – | 3,996 |
| Total comprehensive expense for the year | – | – | – | 3,996 | 3,005 | – | – | (534,962) | (527,961) | (38) | (527,999) |
| Transfer of property revaluation reserve upon disposal of land and buildings | – | – | – | (45,131) | – | – | – | 45,131 | – | – | – |
| Acquisition of a subsidiary | – | – | – | – | – | – | – | – | – | 238 | 238 |
| Lapsed of share options | – | – | – | – | – | (3,341) | – | 3,341 | – | – | – |
| At 31 December 2017 | 690,968 | 352,753 | 38,510 | 23,885 | 6,540 | – | 1,270 | 182,912 | 1,296,838 | 200 | 1,297,038 |
| Impact on initial application of HKFRS 9 | – | – | – | – | – | – | – | (32,042) | (32,042) | – | (32,042) |
| Adjusted balance at 1 January 2018 | 690,968 | 352,753 | 38,510 | 23,885 | 6,540 | – | 1,270 | 150,870 | 1,264,796 | 200 | 1,264,996 |
| Loss for the year | – | – | – | – | – | – | – | (68,090) | (68,090) | 430 | (67,660) |
| Exchange differences arising from translation | – | – | – | – | (3,964) | – | – | – | (3,964) | – | (3,964) |
| Revaluation gain on land and buildings classified as property, plant and equipment | – | – | – | 1,155 | – | – | – | – | 1,155 | – | 1,155 |
| Total comprehensive expense for the year | – | – | – | 1,155 | (3,964) | – | – | (68,090) | (70,899) | 430 | (70,469) |
| At 31 December 2018 | 690,968 | 352,753 | 38,510 | 25,040 | 2,576 | – | 1,270 | 82,780 | 1,193,897 | 630 | 1,194,527 |

* Less than HK$1,000

The special reserve of the Group represents the difference between the nominal value of shares of Lerado Group Limited, a subsidiary of the Company, together with its share premium and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation.

The capital redemption reserve represents the aggregate par value of shares which have been repurchased and cancelled.

As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the PRC subsidiaries of the Company are required to maintain two statutory reserves, being the "statutory surplus reserve fund" and the "enterprise expansion fund", both of which are not distributable. Appropriations to such reserves are made out of the profit for the year as per the statutory financial statements of relevant PRC subsidiaries. The amount and allocation basis are decided by the respective board of directors annually.

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2018*

| | NOTE | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Loss before taxation | | **(64,151)** | (611,959) |
| Adjustments for: | | | |
| Amortisation of prepaid lease payments | | **414** | 404 |
| Depreciation of property, plant and equipment | | **5,366** | 5,712 |
| Finance costs | | **64,230** | 45,570 |
| Impairment loss recognised on financial assets at amortised cost, net | | **37,693** | 4,733 |
| Impairment loss on deposits paid for acquisition of an associate | | **–** | 5,977 |
| Bank interest income | | **(106)** | (201) |
| Fair value changes of: | | | |
| – investment properties | | **(1,990)** | (4,161) |
| – financial assets at FVTPL | | **21,665** | 592,150 |
| – equity instrument at FVTPL | | **1,106** | – |
| – contingent consideration | | **10,249** | (3,516) |
| Loss on disposal of property, plant and equipment | | **–** | 3,025 |
| Loss on disposal of investment properties | | **1,987** | – |
| Loss on disposal of financial assets at FVTPL | | **12** | – |
| Loss on disposal of available-for-sale investment | | **–** | 5,189 |
| Share of profit (loss) of an associate | | **(167)** | 5,907 |
| Reversal of allowance for inventories | | **(336)** | (2,677) |
| Impairment loss of goodwill | | **–** | 1,600 |
| Operating cash flows before movements in working capital | | **75,972** | 47,753 |
| Decrease (increase) in inventories | | **3,748** | (1,928) |
| (Increase) decrease in trade and other receivables and prepayments | | **(39,996)** | 55,773 |
| Increase in loan receivables | | **(23,195)** | (599,924) |
| Decrease (increase) in finance lease receivables | | **2,457** | (15,610) |
| Decrease in investments held for trading | | **368** | 18,840 |
| Decrease (increase) in bank balances – trust and segregated accounts | | **824** | (3,314) |
| Increase (decrease) in trade and other payables and accruals | | **13,014** | (14,362) |
| Cash generated from (used in) operations | | **33,192** | (512,772) |
| Hong Kong Profits Tax paid | | **(3,243)** | (12,207) |
| Interest paid | | **(54,227)** | (40,735) |
| NET CASH USED IN OPERATING ACTIVITIES | | **(24,278)** | (565,714) |

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2018*

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Purchase of available-for-sale investment | 20 | – | (1,000) |
| Deposit paid for forming an associate | | – | (10,028) |
| Purchase of property, plant and equipment | | (956) | (1,574) |
| Interest received | | 106 | 201 |
| Withdraw of statutory deposits | | 25 | 13 |
| Proceeds from disposal of property, plant and equipment | | 7 | 61,020 |
| Proceeds from disposal of investment properties | | 12,637 | 15,435 |
| Purchase of equity instrument at FVTPL | | (9,750) | – |
| Deposit paid for acquisition of subsidiaries | | (6,700) | – |
| Proceeds from disposal of available-for-sale investment | | – | 23,801 |
| Acquisition of subsidiaries | 33 | – | (11,727) |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | | (4,631) | 76,141 |
| FINANCING ACTIVITIES | | | |
| Proceeds from issue of bonds, net of issue cost | | 56,179 | 470,247 |
| Repayment of bonds | | (95,000) | (9,123) |
| New term loan raised | | 20,000 | – |
| Repayment of term loan | | – | (40,000) |
| Repayment of bank loans | | (984) | (1,124) |
| Repayment of finance lease | | (20) | – |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | | (19,825) | 420,000 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (48,734) | (69,573) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | 361,035 | 426,875 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | 2,039 | 3,733 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by | | | |
| Bank balances (general accounts) and cash | | 319,361 | 366,038 |
| Bank overdrafts | | (5,021) | (5,003) |
| | | 314,340 | 361,035 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2018*

## 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability. The addresses of the registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and principal place of business of the Company is at 22/F, The Wellington, 198 Wellington Street, Central, Hong Kong. The Company acts as an investment holding company. Trading in the shares of the Company on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended at the direction of the Securities and Futures Commission since 6 June 2017. As at the date of approval of these financial statements, the trading of shares of the Company remains suspended.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 40.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time.

### Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014-2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") *(continued)*

### Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

#### 2.1 *HKFRS 9 Financial Instruments ("HKFRS 9")*

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement ("HKAS 39").

*Summary of effects arising from initial application of HKFRS 9*

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

| | *Notes* | Available-for-sale investments | Finance lease receivables | Trade and other receivables and prepayment | Loans receivables | Equity instrument at fair value through profit or loss | Deferred tax assets | Retained profits |
|---|---|---|---|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Closing balance at 31 December 2017 – HKAS 39** | | 1,000 | 16,196 | 279,952 | 1,323,470 | – | – | 182,912 |
| **Effect arising from initial application of HKFRS 9:** | | | | | | | | |
| **Reclassification** | | | | | | | | |
| From available-for-sales investment | *(a)* | (1,000) | – | – | – | 1,000 | – | – |
| **Remeasurement** | | | | | | | | |
| Impairment under ECL model | *(c)* | – | (62) | (9,354) | (27,097) | – | 4,471 | (32,042) |
| **Opening balance at 1 January 2018** | | – | 16,134 | 270,598 | 1,296,373 | 1,000 | 4,471 | 150,870 |

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") *(continued)*

### Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

#### 2.1 HKFRS 9 Financial Instruments ("HKFRS 9") (continued)

*Summary of effects arising from initial application of HKFRS 9 (continued)*

(a) Available-for-sale ("AFS") investments

At the date of initial application of HKFRS 9, the Group's 5% equity interest in the unlisted equity investments of HK$1,000,000 were reclassified from available-for-sale investments measured at cost less impairment to equity instrument at FVTPL. No fair value change relating to those equity investments previously carried at cost less impairment were adjusted to equity instrument at FVTPL and retained profits as at 1 January 2018.

(b) Financial assets at FVTPL and/or designated at FVTPL

The Group has reassessed its investments in equity and debt securities classified as held for trading under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, HK$68,604,000 of the Group's investments were held for trading and continued to be measured at FVTPL.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables and lease receivables. Except for those which had been determined as credit impaired under HKAS 39, the remaining balances are grouped based on past due analysis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including loan receivables and bank balances is assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of HK$32,042,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") *(continued)*

### Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

#### 2.1 *HKFRS 9 Financial Instruments ("HKFRS 9") (continued)*

*Summary of effects arising from initial application of HKFRS 9 (continued)*

(c) Impairment under ECL model *(continued)*

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivable. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

All loss allowances, including trade receivables, finance lease receivable and loans receivable as at 1 January 2018 are as follows:

| | Trade receivables<br>*HK$* | Finance lease receivables<br>*HK$* | Loans receivables<br>*HK$* |
|---|---|---|---|
| As 31 December 2017 – HKAS 39 | 17,447 | – | – |
| Amounts remeasured through opening retained profits | 9,354 | 62 | 27,097 |
| At 1 January 2018 | 26,801 | 62 | 27,097 |

#### 2.2 *HKFRS 15 Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") *(continued)*

### Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

#### *2.2 HKFRS 15 Revenue from Contracts with Customers (continued)*

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Manufacturing and sales of medical products and plastic toys
- Sales of garment accessories
- Commission income from provision of securities brokerage services

In view of the Group's operations, there is no impact of applying HKFRS 15 on the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 as well as transition to HKFRS 15 on retained earnings at 1 January 2018.

#### *2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards*

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

| | 31 December 2017 (Audited) | HKFRS 9 | 1 January 2018 (Restated) |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-current Assets** | | | |
| Available-for-sale investment | 1,000 | (1,000) | – |
| Equity instruments at fair value through profit or loss | – | 1,000 | 1,000 |
| Finance lease receivables | 9,315 | (36) | 9,279 |
| Deferred tax assets | – | 4,471 | 4,471 |
| **Current Assets** | | | |
| Trade and other receivables and prepayments | 279,952 | (9,354) | 270,598 |
| Finance lease receivables | 6,881 | (26) | 6,855 |
| Loans receivables | 1,323,470 | (27,097) | 1,296,373 |
| **Capital and reserves** | | | |
| Reserves | 605,870 | (32,042) | 573,828 |

*Note:* For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[2] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKFRS 3 | Definition of business[4] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[5] |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle[1] |

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for business combinations and assets acquisition for which the acquisition date is on or after the first annual period beginning on or after 1 January 2020.
5 Effective for annual period beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") *(continued)*

### New and amendments to HKFRSs in issue but not yet effective *(continued)*

***HKFRS 16 Leases***

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and financing/operating cash flows respectively by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Business combinations *(continued)*

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than its carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Goodwill** *(Continued)*

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

**Investment in associate**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of the associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate equals or exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investment in associate *(continued)*

The Group assess whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases have significant influence over an associate, it is accounted for as a disposal of the entire in the investor with resulting gain or loss being recognised in profit or loss. The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)**

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

**Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation**

***Output method***

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been net for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when goods are delivered and the titles have passed.

Revenue and income arising from securities brokerage business are recognised on the following basis:

- commission income for broking business is recorded as income on a trade date basis;
- underwriting commission income, sub-underwriting income and placing commission are recognised as income in accordance with the terms of the underlying agreement or deal mandate when relevant significant act has been completed; and
- interest income from clients are recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Other commission income is recognised when services are provided.

Interest income from a financial asset or money lending business and other financial services is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

The Group's accounting policy for recognitions of revenue from operating leases is described in the accounting policy for leasing below.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Amounts due from lessees under finance leases are recognised at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Interest and rental income which are derived from the Group's ordinary course of business are presented as revenue.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Leasing *(continued)*

***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

***Leasehold land and building***

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity ("foreign currencies") are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

The functional currency of a group entity is changed only if there is a change to the underlying transactions, events and conditions relevant to the group entity. The group entity applies the translation procedures applicable to the new functional currency prospectively from the date of the change. At the date of the change, the group entity translates all items into the new functional currency using the prevailing exchange rate at that date and the resulting translated amounts for non-monetary items are treated as their historical cost.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currencies *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

### Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement schemes, which are defined contribution schemes, are recognised as an expense when employees have rendered service entitling them to the contributions.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purpose of measuring deferred taxes for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### Property, plant and equipment

Property, plant and equipment other than land and buildings held for use in the production or supply of goods or services, or for administrative purposes and construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment *(continued)*

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of land and buildings is recognised in other comprehensive income and accumulated in property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to the profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Construction in progress are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

### Financial instruments

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

***Financial assets***

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

***Financial assets*** *(continued)*

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)*

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains or losses" line item.

*Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2)*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, loan receivables, lease receivable and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

***Financial assets** (continued)*

*Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (continued)*

The Group always recognises lifetime ECL for trade and other receivables, loan receivables and lease receivable that result from transactions within the scope of HKFRS 15. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

***Financial assets** (continued)*

*Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (continued)*

(i) Significant increase in credit risk *(continued)*

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For loan commitments, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due (except for secured margin loans where a shorter period of 30 days past due has been applied by the directors in view of the nature of business operation and practice in managing the credit risk), unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

***Financial assets** (continued)*

*Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (continued)*

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivable, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

***Financial assets*** *(continued)*

*Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (continued)*

(v) Measurement and recognition of ECL *(continued)*

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's accounts receivable, loans receivable, deposits and other receivables and bank balances are each assessed as a separate group);
- Past-due status; and
- External credit ratings where available

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For undrawn loan commitments, the loss allowances are the present value of the difference between:

(a) the contractual cash flows that are due to the Group if the holder of the loan commitment draws down the loan; and

(b) the cash flows that the Group expects to receive if the loan is drawn down.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivable and loans receivable where the corresponding adjustment is recognised through a loss allowance account.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

***Financial assets*** *(continued)*

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)*

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL or (iii) contingent consideration that may be received by an acquirer as part of a business combination.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages; together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

The Group's financial assets at FVTPL are derivatives that are not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

***Financial assets** (continued)*

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)*

(ii) AFS financial assets

AFS financial assets are non-derivatives that are neither classified as financial assets at fair value through profit or loss nor loans and receivables.

Since the Group's AFS equity investments do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loans receivables, bank balances held in an escrow account and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Impairment of financial assets (before application of HKRFS 9 on 1 January 2018)*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

***Financial assets*** *(continued)*

*Impairment of financial assets (before application of HKRFS 9 on 1 January 2018) (continued)*

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and loans receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For AFS investments measured at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Equity instrument*

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received net of direct issue costs.

*Financial liabilities*

Financial liabilities including trade and other payables and bank borrowings and bonds are subsequently measured at amortised cost, using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

***Financial liabilities and equity instruments*** *(continued)*

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rates, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligation are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Share-based payment arrangement

***Share options granted to employees***

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve). At the end of the reporting period, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Share-based payment arrangement *(continued)*

***Share options granted to consultants***

Equity-settled share based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods and services quality for recognition as assets.

### Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment losses *(continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### Key sources of estimation uncertainty *(continued)*

***Impairment assessment of goodwill allocated to the trading of garment segment***

In determining where goodwill is impaired requires an estimation of the value in use of cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The value in use has also taken into account the key assumptions used by management including growth rate, budgeted sales, gross margin and inventories price inflation. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill is HK$35,315,000 (net of accumulated impairment of HK$12,918,000) (2017: HK$35,315,000 (net of accumulated impairment of HK$12,918,000)). Details of the recoverable amount calculation are disclosed in note 18.

***Expected credit losses of loan receivables, trade receivables arising from securities brokerage business and finance lease receivables***

The Group estimates the amount of loss allowance for ECL on its loan receivables, trade receivables arising from securities brokerage business and finance lease receivables. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of loan receivables, trade receivables arising from securities brokerage business and finance lease receivables. The assessment of the credit risk of loan receivables, trade receivables arising from securities brokerage business and finance lease receivables involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

The following significant judgements and estimation are required in applying the accounting requirements for measuring the ECL:

*Significant increase of credit risk*

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. Details of loan receivables, trade receivables arising from securities brokerage business and finance lease receivables are set out in Note 24, 23 and 25.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### Key sources of estimation uncertainty *(continued)*

***Expected credit losses of loan receivables, trade receivables arising from securities brokerage business and finance lease receivables*** *(continued)*

*Establishing groups of assets with similar credit risk characteristics*

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 35 for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Assets move from 12-month to lifetime ECLs when there is a significant increase in credit risk, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

*Models and assumptions used*

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of assets, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

*Forward-looking information*

When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

*Probability of default (PD)*

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

*Loss given default (LGD)*

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

## 5. REVENUE AND SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating segments", which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM") in order to allocate resources to the segment and to assess its performance. The Group's Executive Directors are the CODM for the purposes of HKFRS 8 as it collectively makes strategic decisions in allocating the Group's resources and assessing performance.

For the segment reporting purpose to the CODM, the Group is currently organised into the following five operating and reportable segments:

| | |
|---|---|
| Medical products and plastic toys business | Manufacturing and distribution of medical care products and plastic toys |
| Trading of garments | Trading of garments accessories, such as nylon type, polyester and polyester string |
| Securities brokerage business | Securities brokerage, margin financing and underwriting and placements |
| Money lending business and other financial services | Provision of loan services and other financial services |
| Assets management service | Provision of asset management services |

### Revenue

An analysis of the Group's revenue by major products and services categories for the year are as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Medical products | **47,770** | 46,738 |
| Plastic toys | **19,415** | 19,792 |
| Garment accessories | **27,946** | 28,193 |
| Fee and commission income | **17,492** | 27,760 |
| Revenue from contracts with customers | **112,623** | 122,483 |
| Interest income from loans receivables and finance lease receivables | **133,690** | 101,738 |
| | **246,313** | 224,221 |

## 5. REVENUE AND SEGMENT INFORMATION *(continued)*

### Performance obligations for contracts with customers

***Medical products***

For sales of medical products to international customers, revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customers' specific location. Performance obligations are satisfied at a point in time once control of the goods has been transferred to the customers and the customers have obtained control on the goods through their ability to direct other use of and obtain substantially all the benefits from the goods. The normal credit term is 30 days upon delivery.

***Plastic toys***

For sales of plastic toys to international customers and the wholesale market, revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customers' specific location. Performance obligations are satisfied at a point in time once control of the goods has been transferred to the customers and the customers have obtained control on the goods through their ability to direct other use of and obtain substantially all the benefits from the goods. The normal credit term is 30 to 90 days upon delivery.

***Garment accessories***

The Group sells garment accessories directly to customers and revenue is recognised when control of the goods has transferred, being when the goods have been shipped from the warehouse (delivery). Following delivery, customers have full discretion over the manner of distribution and price to sell the goods, have the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 30 to 90 days upon delivery.

***Fee and commission income***

The Group provides broking and dealing service for securities. Commission income is recognised at a point in time on the execution date of the trades at a certain percentage of the transaction value of the trades executed.

The Group also provide handling service for securities. Fee income is recognised when the transaction is executed. The Group provides custodian services for securities. The customers simultaneously receives and consumes the benefit provided by the Group, hence the revenue is recognised as a performance obligation satisfied over time.

## 5. REVENUE AND SEGMENT INFORMATION *(continued)*

### Segment revenue and results

The following is an analysis of the Group's revenue and result by reportable and operating segment.

| | Medical products and plastic toys business HK$'000 | Trading of garments HK$'000 | Securities brokerage business HK$'000 | Money lending business and other financial services HK$'000 | Assets management service HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2018** | | | | | | |
| Segment revenue – external | 67,185 | 27,946 | 15,858 | 135,324 | – | 246,313 |
| Segment results | (15,959) | 2,111 | (39,487) | 119,968 | (911) | 65,722 |
| Change in fair value of: | | | | | | |
| – investment properties | | | | | | 1,990 |
| – financial asset at FVTPL | | | | | | (21,665) |
| – equity instrument at FVTPL | | | | | | (1,106) |
| – contingent consideration | | | | | | (10,249) |
| Realised loss of financial asset at FVTPL | | | | | | (12) |
| Property rental income | | | | | | 3,596 |
| Loss on disposal of investment properties | | | | | | (1,987) |
| Share of profit of an associate | | | | | | 167 |
| Unallocated corporate income | | | | | | 744 |
| Unallocated corporate expenses | | | | | | (101,351) |
| Loss before taxation | | | | | | (64,151) |

## 5. REVENUE AND SEGMENT INFORMATION *(continued)*

### Segment revenue and results *(continued)*

| | Medical products and plastic toys business *HK$'000* | Trading of garments *HK$'000* | Securities brokerage business *HK$'000* | Money lending business and other financial services *HK$'000* | Assets management service *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2017** | | | | | | |
| Segment revenue – external | 66,530 | 28,193 | 27,760 | 101,738 | – | 224,221 |
| Segment results | (8,500) | 1,983 | (50,082) | 98,050 | (1,670) | 39,781 |
| Change in fair value of: | | | | | | |
| – investment properties | | | | | | 4,161 |
| – held-for-trading investments | | | | | | (592,150) |
| – contingent consideration | | | | | | 3,516 |
| Property rental income | | | | | | 4,166 |
| Impairment loss on deposit paid for acquisition of additional interest in an available-for-sale investment | | | | | | (5,977) |
| Loss on disposal of available-for-sale investment | | | | | | (5,189) |
| Loss an disposal of property, plant and equipment | | | | | | (3,025) |
| Impairment of goodwill | | | | | | (1,600) |
| Share of loss of an associate | | | | | | (5,907) |
| Unallocated corporate income | | | | | | 138 |
| Unallocated corporate expenses | | | | | | (49,873) |
| Loss before taxation | | | | | | (611,959) |

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit earned by/loss from each segment without allocation of change in fair value of investment properties/certain financial assets at FVTPL/ held-for-trading investments not included in securities business and asset management segments, property rental income, impairment loss on deposits paid for acquisition of property, plant and equipment, share of loss of an associate, unallocated corporate income and unallocated corporate expenses. This is the measure reported to the CODM for the purpose of resources allocations and performance assessment.

## 5. REVENUE AND SEGMENT INFORMATION *(continued)*

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments.

| | Medical products and plastic toys business HK$'000 | Trading of garments HK$'000 | Securities brokerage business HK$'000 | Money lending business and other financial services HK$'000 | Assets management service HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|
| **As at 31 December 2018** | | | | | | |
| Segment assets | 112,792 | 42,508 | 364,228 | 1,323,084 | 31,840 | 1,874,452 |
| Investment properties | | | | | | 54,900 |
| Investment in an associate | | | | | | 167 |
| Deposit paid for forming of an associate | | | | | | 10,028 |
| Deposit paid for acquisition of subsidiaries | | | | | | 6,700 |
| Equity instruments at FVTPL | | | | | | 9,644 |
| Financial assets at FVTPL | | | | | | 46,559 |
| Other unallocated assets | | | | | | 194,289 |
| Total assets | | | | | | 2,196,739 |
| Segment liabilities | 49,122 | 15,751 | 67,923 | 3,435 | 4,915 | 141,146 |
| Bonds | | | | | | 798,902 |
| Other unallocated liabilities | | | | | | 62,164 |
| Total liabilities | | | | | | 1,002,212 |

## 5. REVENUE AND SEGMENT INFORMATION *(continued)*

### Segment assets and liabilities *(continued)*

| | Medical products and plastic toys business *HK$'000* | Trading of garments *HK$'000* | Securities brokerage business *HK$'000* | Money lending business and other financial services *HK$'000* | Assets management service *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|
| **As at 31 December 2017** | | | | | | |
| Segment assets | 90,628 | 50,801 | 406,181 | 1,337,460 | 67,101 | 1,952,171 |
| Investment properties | | | | | | 71,676 |
| Available-for-sale investments | | | | | | 1,000 |
| Deposit paid for an associate | | | | | | 10,028 |
| Held-for-trading investments | | | | | | 68,604 |
| Contingent consideration | | | | | | 10,249 |
| Other unallocated assets | | | | | | 178,496 |
| Total assets | | | | | | 2,292,224 |
| Segment liabilities | (20,349) | (16,341) | (97,600) | (4) | (9,598) | (143,892) |
| Bonds | | | | | | (827,720) |
| Other unallocated liabilities | | | | | | (23,574) |
| Total liabilities | | | | | | (995,186) |

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets, other than investment properties, investment in an associate, available-for-sale investments, deposits paid for acquisition of property, plant and equipment, deposit paid for acquisition of additional interest in available-for-sale investment, held-for-trading investments and contingent consideration not included in securities brokerage business and assets management service segments and assets of the investment holding companies, are allocated to reportable and operating segments; and

- all liabilities, other than bonds and liabilities of the investment holding companies, are allocated to reportable and operating segments.

## 5. REVENUE AND SEGMENT INFORMATION *(continued)*

### Other segment information

| | Medical products and plastic toys business HK$'000 | Trading of garments HK$'000 | Securities brokerage business HK$'000 | Money lending business and other financial services HK$'000 | Assets management service HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| **For the year ended 31 December 2018** | | | | | | | |
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | | |
| Additions to property, plant and equipment | 943 | 303 | – | 8 | – | – | 1,254 |
| Loss on disposal of investment properties | – | – | – | – | – | 1,987 | 1,987 |
| Depreciation of property, plant and equipment | 3,769 | – | 1,372 | 225 | – | – | 5,366 |
| Reversal of allowance for inventories | (336) | – | – | – | – | – | (336) |
| Impairment loss on equity instrument at FVTPL | – | – | – | – | – | (1,000) | (1,000) |
| (Reversal)/Impairment loss recognised on trade receivables and loan receivables | (214) | (1,375) | 24,521 | 14,761 | – | – | 37,693 |

| | Medical products and plastic toys business HK$'000 | Trading of garments HK$'000 | Securities brokerage business HK$'000 | Money lending business and other financial services HK$'000 | Assets management service HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| **For the year ended 31 December 2017** | | | | | | | |
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | | |
| Additions to property, plant and equipment | 844 | – | – | – | – | 730 | 1,574 |
| Loss on disposal of property, plant and equipment | – | – | – | – | – | (3,025) | (3,025) |
| Depreciation of property, plant and equipment | 1,371 | – | 1,519 | – | – | 272 | 3,162 |
| Impairment loss on goodwill | – | – | 1,600 | – | – | – | 1,600 |
| Reversal of allowance for inventories | (2,677) | – | – | – | – | – | (2,677) |
| Reversed of impairment loss recognised on trade receivables | (8) | (2,019) | – | – | – | – | (2,027) |
| Impairment loss recognised on trade receivables | – | – | 6,760 | – | – | – | 6,760 |

## 5. REVENUE AND SEGMENT INFORMATION *(continued)*

### Geographical information

The Group's operations are principally located in the People's Republic of China ("PRC") and Hong Kong.

Information about the Group's revenue from external customers is presented based on the locations of the customers.

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| Hong Kong | **171,248** | 150,896 |
| Europe* | **29,586** | 34,586 |
| The United States of America | **16,775** | 10,246 |
| The PRC (excluding Hong Kong) | **13,610** | 14,921 |
| Australia | **1,562** | 1,712 |
| South America | **408** | 455 |
| Others* | **13,124** | 11,405 |
| | **246,313** | 224,221 |

* No further analysis by countries in these two categories is presented because the revenue from each individual country is insignificant to the total revenue.

Majority of the non-current assets are located in the PRC and Hong Kong.

### Information about major customers

The Group's revenue from external customers is mainly derived from the PRC and Hong Kong. For the year ended 31 December 2018, there was no customer which amounted for more than 10% of total revenue. For the year ended 31 December 2017, there was no customer which amounted for more than 10% of total revenue.

## 6. OTHER INCOME

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Bank interest income | **106** | 201 |
| Rental income | **3,596** | 4,162 |
| Other commission income | **90** | 3,709 |
| Others | **5,233** | 4,784 |
| | **9,025** | 12,856 |

## 7. OTHER GAINS AND LOSSES

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Impairment loss on goodwill | **–** | (1,600) |
| Loss on disposal of property, plant and equipment | **–** | (3,025) |
| Loss on disposal of investment properties | **(1,987)** | – |
| Loss on disposal of financial asset at FVTPL | **(12)** | – |
| Loss on disposal of available-for-sale investment | **–** | (5,189) |
| Impairment loss on deposit paid for acquisition of an associate | **–** | (5,977) |
| Fair value changes of: | | |
| – investment properties | **1,990** | 4,161 |
| – financial asset at FVTPL | **(21,665)** | (592,150) |
| – equity instrument at FVTPL | **(1,106)** | – |
| – contingent consideration | **(10,249)** | 3,516 |
| | **(33,029)** | (600,264) |

## 8. FINANCE COSTS

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| Interests on | | |
| – Bank overdrafts and loans | **1,260** | 869 |
| – Bonds | **62,970** | 44,701 |
| | **64,230** | 45,570 |

## 9. INCOME TAX EXPENSE (CREDIT)

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| Current tax: | | |
| Hong Kong Profits Tax | **5,522** | 8,089 |
| The PRC Enterprise Income Tax ("EIT") | **930** | 548 |
| Other jurisdictions | **(201)** | – |
| | **6,251** | 8,637 |
| Overprovision in prior years: | | |
| Hong Kong Profits Tax | **–** | (1,400) |
| | **–** | (1,400) |
| Deferred taxation: | | |
| Current year | **(2,742)** | (84,196) |
| | **3,509** | (76,959) |

## 9. INCOME TAX EXPENSE (CREDIT) *(continued)*

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Under the Law of the PRC on Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Corporate Income Tax in Taiwan is charged at 17% for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

The income tax expense can be reconciled to the loss before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2018**<br>***HK$'000*** | 2017<br>*HK$'000* |
|---|---|---|
| Loss before taxation | **(64,151)** | (611,959) |
| Tax credit at Hong Kong Profits Tax rate of 16.5% | **(10,585)** | (100,973) |
| Tax effect of share of profit (loss) of an associate | **(28)** | 974 |
| Tax effect of expenses not deductible for tax purposes | **13,368** | 19,981 |
| Tax effect of income not taxable for tax purposes | **(346)** | (1,300) |
| Tax effect of tax losses not recognised | **794** | 5,546 |
| Overprovision in prior years | **–** | (1,400) |
| Effect of different tax rates of subsidiaries operate in other jurisdictions | **306** | 213 |
| Income tax expense (credit) | **3,509** | (76,959) |

Details of movements in deferred taxation are set out in note 30.

## 10. LOSS FOR THE YEAR

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Loss for the year has been arrived at after charging (crediting): | | |
| Salaries, allowances and bonuses, including those of directors | **28,048** | 47,350 |
| Contributions to retirement benefit schemes, including those of directors | **1,510** | 2,146 |
| Total employee benefits expense, including those of directors | **29,558** | 49,496 |
| Amortisation of prepaid lease payments | **414** | 404 |
| Auditor's remuneration | **1,050** | 950 |
| Cost of inventories recognised as an expense | **78,762** | 74,845 |
| Depreciation of property, plant and equipment | **5,366** | 5,712 |
| Reversal of allowance for inventories | **(336)** | (2,677) |
| Bank interest income | **(106)** | (201) |
| Property rental income net of negligible outgoing expenses | **(3,596)** | (4,163) |

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the directors and the chief executive are as follows:

**2018**

| | Fees<br>*HK$'000* | Salaries and allowances<br>*HK$'000* | Contribution to retirement benefits scheme<br>*HK$'000* | Total emoluments<br>*HK$'000* |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Chen Chun Chieh | – | 1,282 | 39 | 1,321 |
| Huang Shen Kai *(note a)* | – | 30 | – | 30 |
| Lai Kin Chung Kenneth *(note b)* | – | 722 | 36 | 758 |
| Ho Kuan Lai | – | 657 | – | 657 |
| **Independent non-executive directors** | | | | |
| Lam Williamson *(note c)* | 60 | – | – | 60 |
| Yu Michael Tat Chi *(note d)* | 168 | – | – | 168 |
| Yang Haihui *(note d)* | 110 | – | – | 110 |
| Ye Jianxin *(note e)* | 66 | – | – | 66 |
| Chern Shyh Feng *(note f)* | 12 | – | – | 12 |
| Lam Chak Man *(note f)* | 10 | – | – | 10 |
| Hsu Hong Te *(note f)* | 12 | – | – | 12 |
| Total | 438 | 2,691 | 75 | 3,204 |

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

2017

| | Fees | Salaries and allowances | Contribution to retirement benefits scheme | Total emoluments |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Chief Executive and executive director** | | | | |
| Mak Kwong Yiu *(note g)* | – | 5,855 | – | 5,855 |
| **Other executive directors** | | | | |
| Huang Ying Yuan *(note h)* | – | 120 | – | 120 |
| Chen Chun Chieh | – | 1,278 | 39 | 1,317 |
| Huang Shen Kai | – | 120 | – | 120 |
| Lai Kin Chung Kenneth | – | 642 | 36 | 678 |
| Ho Kuan Lai *(note i)* | – | 17 | – | 17 |
| **Independent non-executive directors** | | | | |
| Ye Jianxin *(note e)* | 120 | – | – | 120 |
| Chern Shyh Feng *(note f)* | 180 | – | – | 180 |
| Lam Chak Man *(note f)* | 120 | – | – | 120 |
| Hsu Hong Te *(note f)* | 180 | – | – | 180 |
| Total | 600 | 8,032 | 75 | 8,707 |

*Notes:*

a. Mr. Huang Shen Kai resigned as executive director on 6 April 2018.

b. Mr. Lai Kin Chung Kenneth resigned as executive director on 28 January 2019.

c. Mr. Lam Willanson was appointed as an independent non-executive director on 20 July 2018.

d. Mr. Yu Michael Tat Chi and Mr. Yang Haihui were appointed as an independent non-executive director on 6 February 2018.

e. Mr. Ye Jianxin resigned as an independent non-executive director on 20 July 2018.

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

*Notes: (continued)*

f. Mr. Chern Shyh Feng, Mr. Lam Chak Man and Mr. Hsu Hong Te resigned as an independent non-executive director on 6 February 2018.

g. Mr. Mak Kwong Yiu was resigned as chairman of the Board, chief executive and executive director on 22 December 2017.

h. Mr. Huang Ying Yuan resigned as an executive director and honorary chairman on 31 August 2017.

i. Ms. Ho Kuan Lai was appointed as an executive director on 22 December 2017.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive Directors' emoluments shown above were mainly for their services as directors of the Company.

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director of the Company has waived any remuneration during the years ended 31 December 2018 and 2017.

## 12. EMPLOYEES' EMOLUMENTS

Among the five individuals with the highest emoluments in the Group for the year ended 31 December 2018, one (2017: two) were directors of the Company whose emoluments are included in the disclosure in note 11 above. The emoluments of the remaining four (2017: three) individuals are as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **5,423** | 4,209 |
| Contribution to retirement benefits scheme | **68** | 108 |
| | **5,491** | 4,317 |

Their emoluments were within the following bands:

| | **2018** | 2017 |
|---|---|---|
| Below HK$1,000,001 | **2** | 1 |
| HK$1,000,001 to HK$1,500,000 | **1** | 1 |
| HK$2,000,001 to HK$2,500,000 | **1** | 1 |

## 13. DIVIDENDS

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2018 (2017: nil).

## 14. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss for the year attributable to owners of the Company, for the purpose of basic and diluted loss per share | **(68,090)** | (534,962) |

| | **Number of shares** | Number of shares |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **2,303,224,137** | 2,303,224,137 |

The computation of diluted loss per share for the year ended 31 December 2018 and 2017 does not assume the exercise of the Company's share option as the exercise would result in an decrease in loss per share for the year.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Land & Building HK$'000 | Leasehold Improvement HK$'000 | Plant & Machinery HK$'000 | Office Equipment HK$'000 | Motor Vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| COST OR VALUATION | | | | | | |
| At 1 January 2017 | 88,437 | 4,842 | 20,522 | 4,705 | 1,954 | 120,460 |
| Exchange realignment | 3,696 | 76 | 1,280 | 131 | 92 | 5,275 |
| Additions | – | – | 112 | 439 | 1,023 | 1,574 |
| Disposals | (61,020) | (616) | (107) | (1,673) | – | (63,416) |
| Adjustment on valuation | (1,923) | – | – | – | – | (1,923) |
| At 31 December 2017 and at 1 January 2018 | 29,190 | 4,302 | 21,807 | 3,602 | 3,069 | 61,970 |
| Exchange realignment | (1,739) | (53) | (213) | (107) | (653) | (2,765) |
| Additions | – | – | 317 | 634 | 303 | 1,254 |
| Disposal | – | – | (24) | – | (199) | (223) |
| Adjustment on valuation | 258 | – | – | – | – | 258 |
| At 31 December 2018 | 27,709 | 4,249 | 21,887 | 4,129 | 2,520 | 60,494 |
| DEPRECIATION AND IMPAIRMENT | | | | | | |
| At 1 January 2017 | – | 1,521 | 18,285 | 2,516 | 1,016 | 23,338 |
| Exchange realignment | 3,193 | 191 | 1,009 | 415 | 97 | 4,905 |
| Provided for the year | 2,726 | 1,148 | 598 | 768 | 472 | 5,712 |
| Disposals | – | (616) | (64) | (1,628) | – | (2,308) |
| Adjustment on valuation | (5,919) | – | – | – | – | (5,919) |
| At 31 December 2017 and at 1 January 2018 | – | 2,244 | 19,828 | 2,071 | 1,585 | 25,728 |
| Exchange realignment | (1,326) | (26) | (417) | (63) | (886) | (2,718) |
| Provided for the year | 2,608 | 1,324 | 496 | 697 | 241 | 5,366 |
| Disposals | – | – | 17 | – | 199 | 216 |
| Adjustment on valuation | (1,282) | – | – | – | – | (1,282) |
| At 31 December 2018 | – | 3,542 | 19,924 | 2,705 | 1,139 | 27,310 |
| CARRYING AMOUNT | | | | | | |
| At 31 December 2018 | 27,709 | 707 | 1,963 | 1,424 | 1,381 | 33,184 |
| At 31 December 2017 | 29,190 | 2,058 | 1,979 | 1,531 | 1,484 | 36,242 |

## 15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The above items of property, plant and equipment other than construction in progress and freehold land are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Land and buildings | 2% or the remaining period of the leases, if shorter |
| Leasehold improvements | 10-20% or the remaining period of the leases, if shorter |
| Plant and machinery | 10-20% |
| Furniture, fixtures and equipment | 20-33$^{1}/_{3}$% |
| Motor vehicles | 20-50% |

The Group revalued its land and buildings at 31 December 2018 and 31 December 2017. The revaluation gain for the year ended 31 December 2018 amounting to HK$1,540,000 which were debited directly to the property revaluation reserve (2017: revaluation gain of HK$3,996,000).

At 31 December 2018, the buildings in the PRC amounting to HK$27,709,000 (2017: HK$29,190,000) were valued under depreciated replacement costs approach.

### Fair value measurement of the Group's buildings

The fair values of the Group's land and buildings were revalued at 31 December 2018 and 2017 by independent property valuers not connected to the Group.

The fair values of the remaining buildings in the PRC were determined by using the depreciated replacement cost approach that reflects the cost to a market participant to construct asset of comparable utility and age, adjusted for obsolescence. There has been no change to the valuation technique during the year.

In estimating of the fair values of properties, the highest and the best use of the properties is their current use. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. All of the fair value measurements of the Group's land and buildings were categorised into Level 3.

## 15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

### Fair value measurement of the Group's buildings *(continued)*

***Reconciliation of Level 3 fair value measurements***

| | **Buildings** |
|---|---|
| | *HK$'000* |
| At 1 January 2017 | 88,437 |
| Disposals | (61,020) |
| Exchange realignment | 503 |
| Depreciation | (2,726) |
| Revaluation | 3,996 |
| At 31 December 2017 and at 1 January 2018 | 29,190 |
| Exchange realignment | (413) |
| Depreciation | (2,608) |
| Revaluation | 1,540 |
| At 31 December 2018 | 27,709 |

The following table shows the valuation techniques used in the determination of fair values for land and buildings and unobservable inputs used in the valuation models.

| **Description** | **Fair value as at 31 December 2018** *HK$'000* | 31 December 2017 *HK$'000* | **Valuation techniques** | **Unobservable inputs** | **Relationship of unobservable inputs of fair value** |
|---|---|---|---|---|---|
| **Properties located in the PRC** | | | | | |
| Industrial office units | **27,709** | 29,190 | Depreciated replacement cost approach | Adjusted building construction cost after taking into account the difference in individual factor | An increase in the building construction cost would result in the increase in the comparable fair value and vice versa. |

If the land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation at HK$4,232,000 (2017: HK$4,923,000).

## 16. PREPAID LEASE PAYMENTS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Analysed for reporting purpose as: | | |
| Current assets | **400** | 420 |
| Non-current assets | **12,919** | 14,408 |
| | **13,319** | 14,828 |

## 17. INVESTMENT PROPERTIES

| | *HK$'000* |
|---|---|
| FAIR VALUE | |
| At 1 January 2017 | 88,491 |
| Change in fair value recognised in profit or loss | 4,161 |
| Disposal | (18,372) |
| Exchange realignment | (2,604) |
| At 31 December 2017 and at 1 January 2018 | 71,676 |
| Change in fair value recognised in profit or loss | 1,990 |
| Disposal | (14,624) |
| Exchange realignment | (4,142) |
| At 31 December 2018 | 54,900 |

All of the Group's property interests held under operating lease to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

## 17. INVESTMENT PROPERTIES *(continued)*

The fair values of the Group's investment properties at 31 December 2018 and 2017 have been arrived at on the basis of a valuation carried out on the respective dates by independent qualified professional valuers not connected to the Group.

The fair values of commercial office units located in the PRC and residential unit and residential parking space located in Hong Kong of residential unit were determined based on direct comparison approach by reference to the market transaction prices of similar properties in the neighbourhood, and adjusted based on the nature, location and condition of the property. For the commercial office units located in Hong Kong, fair value was determined based on the income approach, which was arrived at by reference to market yield expected by investors for similar type of properties and the net income derived from existing tenancies which due allowance for reversionary income potential of the properties on a recurring basis.

In estimating of the fair value of properties, the highest and the best use of the properties is their current use. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. All of the fair value measurements of the Group's investment properties were categorised into Level 3.

The following table shows the valuation techniques used in the determination of fair values for investment properties and unobservable inputs used in the valuation models.

| Description | Fair value as at 31 December 2018 HK$'000 | 31 December 2017 HK$'000 | Valuation technique(s) | Unobservable inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| **Property located in Hong Kong** | | | | | |
| Commercial office units | **8,100** | 7,410 | Income capitalisation approach | Capitalisation rate of 2.9% and reversionary yield (derives from monthly market rate) | An increase in the capitalisation rate would result in a decrease in the fair value and vice versa. |
| Residential unit and residential car parking space | **46,800** | 45,500 | Direct comparison approach | Adjusted transaction price after taking into account the difference in location and individual factor such as nature and condition | An increase in the price per square meter used would result in an increase in the fair value and vice versa. |
| **Property located in the PRC** | | | | | |
| Commercial office units | **–** | 18,766 | Direct comparison approach | Adjusted transaction price after taking into account the difference in location and individual factor such as nature and condition | An increase in the price per square meter used would result in an increase in the fair value and vice versa. |

## 18. GOODWILL

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2017, at 31 December 2017 and at 31 December 2018 | 48,233 |
| IMPAIRMENT | |
| At 1 January 2017 | 11,318 |
| Impairment loss recognised | 1,600 |
| At 31 December 2017, at 1 January 2018 and at 31 December 2018 | 12,918 |
| CARRYING AMOUNTS | |
| At 31 December 2018 | 35,315 |
| At 31 December 2017 | 35,315 |

For the purposes of impairment testing, goodwill with indefinite useful lives has been allocated to three individual cash generating units (CGUs), comprising one subsidiary engaged in trading of garments, one subsidiary engaged in securities brokerage business and one subsidiary engaged in money lending business and other financial service. The carrying amounts of goodwill allocated to these units are as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trading of garments *(Note)* | **30,000** | 30,000 |
| Money lending business and other financial service | **5,315** | 5,315 |
| | **35,315** | 35,315 |

For the year ended 31 December 2018, as the financial performance of securities brokerage business CGU are worse than previously forecasted, the management considered that the growth rate and expected gross margin of garment business is declining as a result of severe competition in the market. The management of the Group assessed the cash flow projections of the securities brokerage business CGU and adjusted downward the estimated cash flows of the trading of garments CGU, taking into account the actual performance in the year ended 31 December 2018 as well as the future prospect from the CGU. As the recoverable amount of the securities brokerage business CGU based on value in use calculation is less than the carrying amount, an impairment loss of HK$1,600,000 was recognised in goodwill in the current year.

## 18. GOODWILL *(continued)*

*Note:*

The basis of the recoverable amounts of the CGU from trading of garments containing goodwill and the major underlying assumptions are summarised below:

The recoverable amount of this CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 12.5% (2017: 11%). The cash flows beyond the 5-year period are extrapolated growth rate of 3% (31 December 2017: 3%). Cash flow projection during the 5-year budget period is based on the budgeted sales and expected gross margins and the inflation on cost of sales and expenses during the projection period. Expected cash inflows/outflows, which include budgeted sales, gross margin and inventories price inflation have been determined based on past performance and management's expectations for the market development.

## 19. INVESTMENT IN AN ASSOCIATE

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of unlisted investment | **16,000** | 16,000 |
| Share of post-acquisition losses | **(15,833)** | (16,000) |
| | **167** | – |

Details of the Group's associate as at 31 December 2018 and 2017 are as follows:

| Name of associate | Form of business structure | Place of incorporation | Issued and fully paid share capital **2018** | Issued and fully paid share capital 2017 | Effective interest in the issued share capital **2018** | Effective interest in the issued share capital 2017 | Principal activity |
|---|---|---|---|---|---|---|---|
| Fullsino Management Limited* ("Fullsino") | Incorporated | Hong Kong | **HK$40,000,000** | HK$40,000,000 | **40%** | 40% | Provision of beauty and wellness services |

## 19. INVESTMENT IN AN ASSOCIATE *(continued)*

Summarised financial information of Fullsino is set out below:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total assets | **417** | 9,070 |
| Total liabilities | **–** | (27,483) |
| Net assets (liabilities) | **417** | (18,413) |
| Group's share of net assets (liabilities) | **167** | (7,365) |
| Revenue | **–** | 41,455 |
| Profit (loss) for the year and total comprehensive expenses | **18,829** | (33,180) |
| Group's share of profit (loss) of the associate for the year | **7,532** | (13,272) |
| Unrecognised share of loss of an associate for the year | **–** | 7,365 |
| Cumulative unrecognised share of loss of an associate | **–** | (7,365) |

## 20. AVAILABLE-FOR-SALE INVESTMENTS

### Available-for-sale investments

The Group's available-for-sale investments at 31 December 2017 represent investments in unlisted equity securities issued by private entities established in the PRC and Samoa which do not have quoted market price in an active market. As the range of reasonable fair value estimates is so significant, the corresponding fair values cannot be measured reliably. Accordingly, the investments are measured at cost less impairment at the end of reporting period.

As at 31 December 2017, the Group invested in one unlisted equity investment incorporated in British Virgin Islands, with a carrying amounts of HK$1,000,000. This investment represent 5% holdings of the ordinary shares of the unlisted equity investments.

## 21. DEPOSITS PAID FOR FORMING OF AN ASSOCIATE

On 29 December 2016, an indirect wholly-owned subsidiary of the Company, Black Marble Securities Limited, entered into an agreement (the "Agreement") with various independent third parties to set up an unlisted company, Guandong Silk Road Securities Co., Ltd* ("廣東絲路証券股份有限公司") in the PRC. Pursuant to the agreement, the Company will subscribe 19% of the share capital of the associate, and is entitled to nominate a director to the board.

In the current year, the formation of the associate is not yet completed. For the year ended 31 December 2017, the Company had paid a consideration of RMB8,740,000 (equivalent to approximately HK$10,028,000) as a deposit for forming of the associate. Up to the date of this report, the associate has not yet been set up.

* *For identification purpose only*

## 22. INVENTORIES

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| Raw materials | 11,046 | 11,557 |
| Work in progress | 904 | 2,158 |
| Finished goods | 2,901 | 5,307 |
| | 14,851 | 19,022 |

During the year, a reversal of allowance of HK$336,000 (2017: reversal of allowance of HK$2,677,000) was recognised in cost of sales for obsolete and slow-moving inventory items identified.

## 23. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| Trade receivables arising from: | | |
| Medical products and plastic toys business and trading of garments *(Note a)* | 38,237 | 38,707 |
| *Less:* allowance for doubtful debts | (15,758) | (6,594) |
| | 22,479 | 32,113 |
| Securities brokerage business *(Note b)*: | | |
| – Cash clients | 8,250 | – |
| – Margin clients | 201,694 | 188,067 |
| – Clearing house | – | – |
| *Less:* allowance for doubtful debts | (33,931) | (10,853) |
| | 176,013 | 177,214 |
| Total trade receivables | 198,492 | 209,327 |
| Purchase deposits, other receivables and deposits | 50,374 | 43,621 |
| Prepayments | 38,549 | 27,004 |
| Total trade and other receivables and prepayments | 287,415 | 279,952 |

## 23. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(continued)*

*Notes:*

(a) The Group allows an average credit period of 60 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts from medical products and plastic toys business and trading of garment presented based on the invoice date at the end of reporting period, which approximated the respective revenue recognition dates.

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **10,799** | 6,484 |
| 31 to 90 days | **9,298** | 6,674 |
| Over 90 days | **2,382** | 18,955 |
| | **22,479** | 32,113 |

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines its credit limits. Credit sales are made to customers with a satisfactory trustworthy credit history. Credit limits attributed to customers are reviewed regularly.

As at 31 December 2017, included in the trade receivable balance are debtors with aggregate carrying amount of HK$4,587,000 which are past due at the end of reporting period for which the Group has not provided for impairment loss after consideration of the credit quality of those individual customers, the ongoing relationship with the Group, the aging of these receivables and their subsequently settlement pattern. The Group does not hold any collateral over these balances.

**Ageing of trade receivables which are past due but not impaired**

| | 2017 |
|---|---|
| | *HK$'000* |
| Within 30 days | 599 |
| 31 to 90 days | 1,153 |
| Over 90 days | 2,835 |
| Total | 4,587 |

**Movement in the allowance for trade receivables**

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **6,594** | 8,555 |
| Adoption of HKFRS 9 | **10,797** | – |
| Impairment reversed recognised on trade receivables | **(1,589)** | (2,027) |
| Exchange realignment | **(44)** | 66 |
| Balance at end of the year | **15,758** | 6,594 |

Included in allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$15,758,000 (2017: HK$6,594,000). The directors of the Company take into consideration the current financial position of the counterparties and their repayment history and consider that the chances of collection of the outstanding amounts are remote.

## 23. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(continued)*

*Notes: (continued)*

(b) The normal settlement terms of trade receivables from cash clients and securities clearing house are two days after trade date.

Margin loan receivables from margin clients, net of individually impaired receivables, amounting to HK$158,351,000 (2017: HK$183,974,000) as at 31 December 2018 are secured by clients' pledged securities with fair value of HK$120,287,000 (2017: HK$210,247,000). All of the pledged securities are listed equity securities in Hong Kong. The margin loans are repayable on demand subsequent to settlement date and carry interest at Hong Kong Prime rate plus margin that ranges from 8% to 15% (2017: ranges from 8% to 15%) per annum. Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the outstanding amount exceeds the eligible margin value of securities deposited. The collateral held can be sold at the Group's discretion to settle any outstanding amount owed by margin clients.

**Movement in the allowance for trade receivables**

| | **2018** *HK$'000* | 2017 *HK$'000* |
|---|---|---|
| Balance at beginning of the year | **10,853** | 4,093 |
| Adoption of HKFRS 9 | **(1,443)** | – |
| Impairment loss recognised on trade receivables | **24,521** | 6,760 |
| Balance at end of the year | **33,931** | 10,853 |

The Group has concentration of credit risk as 55% (2017: 55%) of the total loans to margin clients was due from the Group's five largest margin clients. The whole amount is secured by clients' pledged securities with the fair value of HK$41,024,000 (2017: HK$64,794,000) as at 31 December 2018. No ageing analysis is disclosed, as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of business of securities margin financing.

In determining the allowances for impaired margin loans to margin clients, the management of the Group considers the margin shortfall by comparing the market value of stock portfolio and the outstanding balance of margin loan to securities margin clients individually. Impairments are made for those clients with margin shortfall as at year end and with no settlement after the year end.

In addition to the individually assessed allowances for impaired margin loan, the management of the Group has also assessed, on a collective basis, a margin loan impairment allowance for margin loan receivable arising from the business of dealing in securities with margin clients that are individually insignificant or accounts receivable where no impairment has been identified individually. Objective evidence of collective impairment could include the Group's past experience of collecting payments, internal credit rating and observable changes in national or local economic conditions that correlate with default on receivables.

## 24. LOANS RECEIVABLES

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loans receivables | **1,240,105** | 1,225,364 |
| Interest receivables | **106,559** | 98,106 |
| | **1,346,664** | 1,323,470 |
| Loss allowance for ECL | **(40,684)** | – |
| | **1,305,980** | 1,323,470 |
| Analysed as: | | |
| Secured | **374,783** | 275,464 |
| Unsecured | **931,197** | 1,048,006 |
| | **1,305,980** | 1,323,470 |

The total amounts are repayable within one year from the end of the reporting period. Interest rate on the fixed rate loans receivables as at 31 December 2018 is at a range of 6% to 12% per annum.

In determining the impairment of loans receivables from money lending business, the management considers the settlements subsequent to maturity of the relevant loans receivables and the estimated recoverable amount of the corresponding pledged assets of each borrower less cost to sell.

As at 31 December 2018, included in the Group's loan receivables balance are debtors with aggregate carrying amount of HK$33,822,000 which are past due as at the reporting date, of which HK$33,822,000 has been past due 90 days or more. The directors of the Company considers credit risks have increased significantly and those past due more than 90 days are considered as credit impaired.

As at 31 December 2017, included in loans receivables are debtors of secured loans receivables with the aggregate carrying amount of HK$35,000,000 which have been past due but the directors of the Company consider that no impairment is required as there are no default in repayment for loans receivables. In respect of loans receivables which are past due but not impaired at the end of the reporting period are all aged within 180 days (from maturity date).

The remaining amounts that are neither past due nor impaired at the end of the reporting period and the directors of the Company are of the opinion that the amounts are recoverable.

Included in loans receivables, amount of approximately HK$740,000 is due from Mr. Lai Kin Chung, Kenneth, who was an executive director of the Company and resigned on 28 January 2019. The amount is unsecured, bearing interest at 10% and repayable within one year. The maximum balance during the year is HK$740,000.

## 24. LOANS RECEIVABLES *(continued)*

### Movement in the allowance for loan receivables

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Balance at beginning of the year | – | – |
| Adoption of HKFRS 9 | 27,097 | – |
| Impairment loss recognised on loan receivables | 13,587 | – |
| Balance at the end of the year | 40,684 | – |

## 25. FINANCE LEASE RECEIVABLES

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Finance lease receivables | 13,077 | 16,196 |
| Loss allowance for ECL | (1,193) | – |
| | 11,884 | 16,196 |
| Analysed as: | | |
| – Current | 10,208 | 6,881 |
| – Non-current | 1,676 | 9,315 |
| | 11,884 | 16,196 |

### Details of leasing arrangements

The Group has entered into a finance lease arrangement to lease out certain of its production machinery and equipment with the remaining lease terms from 1 to 2 years. At the end of the lease term of these finance leases, the lessee has the option to buy the machinery and equipment at nominal consideration. None of the lease contains contingent rentals. The contractual interest rates in the lease arrangements are fixed rate 7% per annum.

## 25. FINANCE LEASE RECEIVABLES *(continued)*

### Details of leasing arrangements *(continued)*

***Amount receivable under finance leases***

| | Minimum lease payments | | Present value of Minimum lease payments | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***HK$000*** | *HK$000* | ***HK$000*** | *HK$000* |
| Not later than one year | **11,672** | 7,842 | **11,233** | 6,881 |
| Later than one year and no later than five years | **1,870** | 9,803 | **1,844** | 9,315 |
| Later than five years | **–** | – | **–** | – |
| | **13,542** | 17,645 | **13,077** | 16,196 |
| Less: unearned finance income | **(465)** | (1,449) | **–** | – |
| Present value of minimum lease payments receivables | **13,077** | 16,196 | **13,077** | 16,196 |

The finance lease receivables at the end of the reporting period are neither past due not impaired.

### Movement in the allowance for finance lease receivables

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **–** | – |
| Adoption of HKFRS 9 | **62** | – |
| Impairment loss recognised on finance lease receivables | **1,174** | – |
| Exchange realignment | **(43)** | – |
| Balance at the end of the year | **1,193** | – |

## 26. FINANCIAL ASSET AND EQUITY INSTRUMENTS AT FVTPL

| | 2018 | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Financial assets mandatorily at FVTPL: | | |
| Listed securities held for trading: | | |
| – Equity securities listed in Hong Kong | **40,559** | 62,604 |
| – Debt securities traded in Hong Kong | **6,000** | 6,000 |
| | **46,559** | 68,604 |
| Unlisted equity fund | **9,644** | – |
| | **56,203** | 68,604 |
| Analysed for reporting purpose as: | | |
| Current assets | **46,559** | 68,604 |
| Non-current assets | **9,644** | – |
| | **56,203** | 68,604 |

The Group has recorded a loss on fair value changes of held-for-trading investments for the year ended 31 December 2018 of HK$22.8 million (2017: loss on fair value of HK$592.2 million).

The fair value of measurement of the Group's held-for-trading investments were categorised into Level 1 and fair values have been determined by reference to the quoted market bid prices available on the Stock Exchange.

## 27. BANK BALANCES AND CASH

### Bank balances-trust and segregated accounts

The Group receives and holds money deposited by clients and other institutions in the course of the conduct of the regulated activities of its ordinary business. These clients' monies are maintained in one or more segregated bank accounts. The Group has also recognised the corresponding trade payables to respective clients and other respective clients and other institutions (note 28). However, the Group does not have a currently enforceable right to offset those payables with the deposits placed.

### Bank balances (general accounts) and cash

The amount comprises balances and cash held by the Group and short term bank deposits with original maturity within 3 months. At 31 December 2018, bank balances and short term bank deposits carried interest at market rates ranging from 0.01% to 3% (2017: 0.01% to 3%) per annum.

## 28. TRADE AND OTHER PAYABLES AND ACCRUALS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables arising from: | | |
| Medical products and plastic toys business and trading of garments | **25,138** | 23,448 |
| Securities brokerage business | | |
| – Cash clients | **11,310** | 15,167 |
| – Margin clients | **27,235** | 24,129 |
| – Clearing house | **13,277** | 69 |
| Total trade payables | **76,960** | 62,813 |
| Accrued expenses | **5,050** | 854 |
| Other payables | **60,221** | 66,533 |
| | **142,231** | 130,200 |

Included in other payables of HK$nil (2017: HK$95,000) represents the margin financing payable to an independent broker for investment trading, which is secured by held-for-trading investment of HK$nil (2017: HK$nil).

The following is an aged analysis of trade payables from medical products and plastic toys business and trading of garments presented based on the invoice date at the end of the reporting period:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **13,987** | 9,960 |
| 31 to 90 days | **4,644** | 3,241 |
| Over 90 days | **6,507** | 10,247 |
| | **25,138** | 23,448 |

The average credit period on purchases of goods from medical products and plastic toys business and trading of garments is 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

The settlement terms of trade payable arising from the securities brokerage business are two days after trade date or at specific terms agreed with clearing house. Trade payables to cash and margin clients are repayable on demand. No ageing analysis is disclosed as in the opinion of directors of the Company, the ageing analysis does not give additional value in view of the nature of business of share margin financing.

As at 31 December 2018, the trade payables amounting to HK$38,550,000 (2017: HK$39,374,000) were payable to clients in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

## 29. BORROWINGS AND BONDS

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Bank overdrafts | **5,021** | 5,003 |
| Bank loans | **3,397** | 4,381 |
| Term loan | **20,000** | – |
| | **28,418** | 9,384 |
| Bonds | **798,902** | 827,720 |
| | **827,320** | 837,104 |
| Analysed as: | | |
| Secured | **28,418** | 9,003 |
| Unsecured | **798,902** | 828,101 |
| | **827,320** | 837,104 |
| Carrying amount repayable for borrowings that contain a repayable on demand clause:* | | |
| Within one year | **25,220** | 5,985 |
| More than one year but not more than two years | **203** | 191 |
| More than two years but not more than five years | **639** | 573 |
| More than five years | **2,356** | 2,635 |
| | **28,418** | 9,384 |
| *Less:* Amounts due within one year shown under current liabilities | **(28,418)** | (9,384) |
| Amounts shown under non-current liabilities | **–** | – |

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Movement of bank and term loans is as follows:

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| As at 1 January | **4,381** | 45,505 |
| New borrowings raised | **20,000** | – |
| Repayment of the principal | **(984)** | (41,124) |
| As at 31 December | **23,397** | 4,381 |

## 29. BORROWINGS AND BONDS *(continued)*

The carrying amounts of bonds are repayable as follows:

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| Within one year | **–** | – |
| More than one year but not more than two years | **–** | 51,477 |
| More than two years but not more than five years | **–** | – |
| More than five years | **798,902** | 776,243 |
| | **798,902** | 827,720 |
| *Less:* Amounts due within one year shown under current liabilities | **–** | – |
| Amounts shown under non-current liabilities | **798,902** | 827,720 |

Movement of the bonds is as follows:

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| At 1 January | **827,720** | 361,761 |
| Proceeds from the bond issue (cash flow) | **69,600** | 536,616 |
| Accrued interests | **62,970** | 44,701 |
| Interest paid (cash flow) | **(52,967)** | (39,866) |
| Repayments (cash flow) | **(95,000)** | (9,123) |
| Transaction cost | **(13,421)** | (66,369) |
| At 31 December | **798,902** | 827,720 |

As at 31 December 2018, the Group had aggregate outstanding borrowings comprising (i) bank borrowings of HK$1,628,000 (2017: HK$2,180,000) and bank overdrafts of HK$2,011,000 (2017: HK$1,995,000) secured by a property of the Group and guaranteed by a director of a subsidiary of the Group, (ii) bank borrowing of HK$1,769,000 (2017: HK$1,821,000) and bank overdrafts of HK$3,010,000 (2017: HK$3,008,000) secured by properties owned by and guaranteed by a director of a subsidiary of the Group, (iii) bank borrowings of HK$nil (2017: HK$381,000) unsecured and guaranteed by a director of a subsidiary of the Group and guarantee provided by the government of Hong Kong, and (iv) term loan of HK$20,000,000 (2017: HK$nil) secured by the investment properties of the Group.

The Group's bank loans were at variable-rate interest ranged from Hong Kong Prime rate plus 2.20% to 2.45% (2017: 2.20% to 4.50%) per annum.

## 29. BORROWINGS AND BONDS *(continued)*

The Group's term loans is at fixed-rate interest at 13.00% (2017: nil) per annum.

During the year ended 31 December 2018, the Group and a wholly owned subsidiary of the Company issued bonds with an aggregate principal amount of HK$890,200,000 (2017: HK$863,600,000) and HK$nil (2017: HK$52,000,000), respectively. Transaction costs attributable to the issuance of the bond amounted to approximately HK$13,421,000 (2017: HK$66,369,000) and HK$nil (2017: HK$1,560,000), respectively. The bonds are unsecured with maturity date falling on the eighth and second anniversary of the issue date, respectively. The interest rate of the bonds is fixed at 6% and 4% per annum, respectively, and the interest is paid annually. The Company may at any time before the maturity date to redeem the bond in respective to the principal amount of HK$52,000,000, while an additional coupon of 0.5% will be given to the bond holder if the Company exercise the rights of early redemption option. In the opinion of the directors of the Company, the value of the early redemption option is insignificant.

## 30. DEFERRED TAX (ASSETS) LIABILITIES

The followings are the major deferred tax (assets) liabilities recognised and movements thereon during the current and prior years:

| | Difference between accounting and tax depreciation | Revaluation of properties | Fair value change on financial asset at FVTPL | Loss allowance for ECL | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2017 | (4,290) | 18,127 | 81,193 | – | 95,030 |
| (Credit) charge to profit or loss | 4,376 | (7,379) | (81,193) | – | (84,196) |
| Exchange realignment | – | 470 | – | – | 470 |
| At 31 December 2017 | 86 | 11,218 | – | – | 11,304 |
| Impact of initial application of HKFRS 9 | – | – | – | (4,471) | (4,471) |
| Adjusted balance at 1 January 2018 | 86 | 11,218 | – | (4,471) | 6,833 |
| Credit to profit or loss | (500) | – | – | (2,242) | (2,742) |
| Charge to other comprehensive income | – | 385 | – | – | 385 |
| Exchange realignment | (274) | (82) | – | – | (356) |
| At 31 December 2018 | (688) | 11,521 | – | (6,713) | 4,120 |

## 30. DEFERRED TAX (ASSETS) LIABILITIES *(continued)*

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements as there is no temporary differences attributable to accumulated profits of the PRC subsidiaries as well as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31 December 2018, the Group had unused tax losses of HK$231,053,000 (2017: HK$228,014,000) available for offset against future profits. Deferred tax assets thereon have not been recognised because of the unpredictability of future profit streams. The unused tax losses of HK$219,244,000 (2017: HK$215,766,000) may be carried forward indefinitely and the unused tax losses of HK$11,809,000 (2017: HK$12,248,000) will expire in the following years ended 31 December:

| | **2018**<br>***HK$'000*** | 2017<br>*HK$'000* |
|---|---|---|
| 2018 | **–** | 439 |
| 2019 | **1,338** | 1,338 |
| 2020 | **6,397** | 6,397 |
| 2021 | **2,947** | 2,947 |
| 2022 | **1,127** | 1,127 |
| 2023 | **–** | – |
| | **11,809** | 12,248 |

## 31. SHARE CAPITAL

| | **2018**<br>***HK$'000*** | 2017<br>*HK$'000* |
|---|---|---|
| **Authorised:** | | |
| 10,000,000,000 ordinary shares of HK$0.5 each | **5,000,000** | 5,000,000 |
| **Issued and fully paid:** | | |
| 767,741,379 ordinary shares of HK$0.5 each | **383,871** | 383,871 |
| **Issued and partially paid:** | | |
| 1,535,482,758 ordinary shares of HK$0.5 each | **307,097** | 307,097 |
| | **690,968** | 690,968 |

## 32. SHARE OPTIONS

### 2002 Scheme

The Company adopted a share option scheme, which was approved at the Company's annual general meeting held on 30 May 2002 (the "2002 Scheme"), for the primary purpose of providing incentives to directors and eligible participants. According to the 2002 Scheme, the board of directors of the Company may offer to grant share options to eligible employees, including directors of the Company or any of its subsidiaries and any suppliers, consultants, agents and advisers who have contribution to the Group, to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted.

Any offer to grant share options should be accepted within 30 days from the date of offer. The total number of shares in respect of which options may be granted under the 2002 Scheme and any other share option scheme of the Company at any time shall not exceed 10% of the shares of the Company in issue at any point in time. The number of shares in respect of which share options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Share options granted to substantial shareholders or any of its associates in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

The directors may at its absolute discretion determine the period during which a share option may be exercised, such period to expire not later than 10 years from the date of grant of the share option. No option may be granted more than 10 years after the date of approval of the 2002 Scheme. Subject to earlier termination by the Company in general meeting or by the Board's meeting, the 2002 Scheme shall be valid and effective for a period of 10 years after the date of adoption of the 2002 Scheme. The exercise price is determined by the directors and shall not be less than the highest of (i) the closing price of the Company's shares on the date on which the share option is offered, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of offer, and (iii) the nominal value of the share.

On 18 January 2012, the Company granted share options to certain eligible employees (excluding directors) to subscribe for a total of 15,000,000 shares in the Company (equally divided into two batches, namely Batch I and Batch II) at an exercise price of HK$0.77 per share under the 2002 Scheme. These eligible employees have rights to exercise their respective share options at any time during the period from the date after the share options have been vested (i.e. 18 January 2013 for Batch I and 18 January 2014 for Batch II) to the expiry date (i.e. 17 January 2017 for both batches).

## 32. SHARE OPTIONS *(continued)*

### 2012 Scheme

The 2002 Scheme was expired on 31 May 2012. The Company adopted a new share option scheme (the "2012 Scheme"), which was approved in the Company's annual general meeting on 28 May 2012 with the view to motivate the eligible participants.

As a result of all granted options have lapsed and no further options may be granted under the 2002 Scheme subsequent to its expiration, the 2002 Scheme has ceased to be in force.

According to the 2012 Scheme, the board of directors of the Company may offer to grant an option to any full-time employees, executives or officers, directors of the Company or any of its subsidiaries and any suppliers, consultants, agents and advisers who have contributed to the Group. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

In general, the maximum number of shares in respect of which options may be granted under the 2012 Scheme and under any other share option scheme of the Company must not exceed 10% of the total number of shares in issue, excluding for this purpose shares which would have been issuable pursuant to option which have lapsed in accordance with the terms of the 2012 Scheme.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the 2012 Scheme and any other share option schemes of the Company to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as of the date of grant without prior approvals of the shareholders. Share options granted to connected persons in excess of 0.1% of the shares in issue or having a value in excess of HK$5 million must be approved in advance by the Company's shareholders in general meeting.

The directors may in its absolute discretion determine the period during which an option may be exercised, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the 2012 Scheme. Subject to earlier termination by the Company in general meeting or by the board of directors, the 2012 Scheme shall be valid and effective for a period of 10 years after the date of adoption of the 2012 Scheme. The exercise price shall be determined by the board of directors and must not be less than the highest of (i) the official closing price of the Company's shares on the date of grant, (ii) the average of the official closing price of the Company's shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of a share.

## 32. SHARE OPTIONS *(continued)*

No share option was outstanding during the year ended 31 December 2018. The following table discloses movements in the Company's share options during the years ended 31 December 2017:

| | | Number of share options | | | | |
|---|---|---|---|---|---|---|
| | Date of grant | Outstanding at 1 January 2017 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding at 31 December 2017 |
| Employees | 18 January 2012 (Batch I) | 9,295 | – | – | (9,295) | – |
| Employees | 18 January 2012 (Batch I) | 9,295 | – | – | (9,295) | – |
| Employees and consultants* | 12 February 2015 | 8,365,794 | – | – | (8,365,794) | – |
| | | 8,384,384 | – | – | (8,384,384) | – |
| Exercisable at the end of the year | | 8,384,384 | | | | – |
| Weighted average exercise price | | 1,912 | | | | N/A |

* The consultants are not connected parties of the Group and have provided business relations services to the Group for the years ended 31 December 2017.

Details of specific categories of share options are as follows:

| Date of grant | Vesting period | Exercisable period | Original exercise price HK$ | Adjusted exercise price with effect to open offer, share consolidation and rights issue HK$ |
|---|---|---|---|---|
| 18 January 2012 (Batch I) | 12 months | 18 January 2013-17 January 2017 | 0.77 | 2.484 |
| 18 January 2012 (Batch II) | 24 months | 18 January 2014-17 January 2017 | 0.77 | 2.484 |
| 12 February 2015 | N/A | 12 February 2015-11 February 2017 | 0.592 | 1.911 |

During the year, no share options were granted and exercised (2017: nil).

For the year ended 31 December 2018 and 2017, the Group had not recognised any share-based payment expenses (included in administrative expenses) in relation to share options granted by the Company.

## 33. ACQUISITION OF SUBSIDIARIES

### For the year ended 31 December 2017

On 11 October 2017, the Company entered into an agreement (the "Acquisition Agreement") with GE Oriental Financial Group Limited ("GOFG"), an independent third party of the Group, to purchase the 80% issued share capital of Genuine Oriental Wealth Management Limited ("GOWM"), by paying cash consideration of HK$13,000,000. The transaction was completed on 18 October 2017 (the "Acquisition Date").

GOWM is principally engaged in providing insurance brokerage service.

Pursuant to the Acquisition Agreement, GOFG warrants ("Warrants") and represents to the Group that for the period from 1 April 2017 to 31 March 2018, that the net profit after tax of GOWM shall not be less than HK$2 million ("Profit Guarantee"). In the event the Profit Guarantee is not achieved, GOFG will make compensation payment amounted to 6.5 times of the shortfall amount (i.e. the difference between actual profit and profit as per Profit Guarantee). At the date of acquisition, the fair value of the contingent consideration receivable is approximately HK$6,733,000, which was estimated by applying the discounted cash flow approach. The fair value estimates are based on a discount factor of 16.0%. This is a level 3 fair value measurement.

As at 31 December 2017, the fair value of contingent consideration receivable is approximately HK$10,249,000. The fair value are estimated based on the valuation performed by independent qualified professional valuers not connected to the Group.

## 33. ACQUISITION OF SUBSIDIARIES *(continued)*

### For the year ended 31 December 2017 *(continued)*

Assets and liabilities recognised at the date of acquisition:

| | *HK$'000* |
|---|---|
| Current assets | |
| Trade and other receivables | 102 |
| Bank balances and cash | 1,273 |
| | 1,375 |
| Current liabilities | |
| Trade and other payables | 185 |
| | 185 |
| Net assets acquired | 1,190 |

Goodwill arising on acquisition:

| | *HK$'000* |
|---|---|
| Total consideration | |
| – Cash | 13,000 |
| – Contingent consideration arrangement | (6,733) |
| | 6,267 |
| *Add:* Non-controlling interest (20% in GOWM) | 238 |
| *Less:* recognised amount of identifiable net assets acquired | (1,190) |
| Goodwill arising on acquisition | 5,315 |
| Net cash inflow arising on acquisition | |
| Cash consideration | 13,000 |
| Bank balances and cash acquired | (1,273) |
| | 11,727 |

Goodwill arose on the acquisition of GOWM because of expected synergies, revenue growth and future market development in the other financial services business.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Included in the loss for the year is profit of HK$191,000 attributable to the addition business generated by GOWM. Revenue for the year includes HK$459,000 generated from GOWM.

## 33. ACQUISITION OF SUBSIDIARIES *(continued)*

### For the year ended 31 December 2017 *(continued)*

Had the acquisition been completed on 1 January 2017, Group's revenue for the year ended 31 December 2017 would have been HK$225,809,000, and loss for the year would have been HK$534,672,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

## 34. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that its subsidiaries will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remain unchanged from prior year.

The capital structure of the Group consists of net debt which includes borrowings and bonds disclosed in note 29, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising share capital, share premium, special reserve, property revaluation reserve, translation reserve, share option reserve, capital redemption reserve and accumulated profits, as disclosed in the consolidated financial statements.

The directors of the Company review the capital structure annually. As part of this review, the directors of the Company assess the annual budget prepared by management of the Company. Based on the proposed annual budget, the directors of the Company consider the cost of capital and the risks associated with each class of capital. The directors of the Company also balance its overall capital structure through new share issues, as well as issue of new debts and repayment of existing debts.

A subsidiary of the Company is regulated by the Hong Kong Securities and Futures Commission ("SFC") and is required to comply with the financial resources requirements according to the Hong Kong Securities and Futures (Financial Resources) Rules (the "SF(FR)R"). The Group's regulated entity is subject to minimum paid-up share capital requirements and liquid capital requirements under the SF(FR)R. Management closely monitors, on a daily basis, the liquid capital level of these entities to ensure compliance with the minimum liquid capital requirements under the SF(FR)R.

## 35. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Fair value through profit or loss (FVTPL) | | |
| Mandatorily measured at FVTPL | | |
| – Held-for-trading | **46,559** | 68,604 |
| – Others | **9,644** | – |
| Amortised cost | **1,924,641** | – |
| Loans and receivables (including cash and cash equivalents) | **–** | 1,984,610 |
| Available-for-sale financial assets | **–** | 1,000 |
| **Financial liabilities** | | |
| Amortised cost | **852,458** | 967,304 |

### (b) Financial risk management objectives and policies

The Group's financial instruments include financial assets at FVTPL, held-for-trading investments, trade and other receivables, loan receivables, bank balances and cash, trade and other payables, and borrowings and bonds. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, market risk (currency risk, interest rate risk and other price risk) and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Credit risk***

The Group's principal financial assets include financial assets at FVTPL, held-for-trading investments, trade and other receivables, loans receivables and bank balances and cash. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2018 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The exposure of credit risk on financial assets at FVTPL, held-for-trading investments is limited as they are issued by companies listed on the Stock Exchange.

## 35. FINANCIAL INSTRUMENTS *(continued)*

### (b) Financial risk management objectives and policies *(continued)*

***Credit risk*** *(continued)*

In order to minimise the credit risk of trade receivables from medical products and plastic toys business and trading of garments, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group only extends credit to trade customers based on careful evaluation of the customers' financial conditions and credit history. Credit sales of products are made to trade customers with an appropriate credit history. In addition, the Group reviews the recoverable amount of each individual receivable at the end of each reporting period to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the directors consider that the Group's exposure to bad debts and concentration risk is minimal.

In order to minimise the credit risk on securities brokerage business and money lending business and other financial services, the directors of the Company compile the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the directors of the securities brokerage business review the recoverable amount of margin loans derived from margin client with pledged equity securities listed in Hong Kong. As disclosed in Note 23, the review are based on an individual and collective basis at each reporting date to ensure that adequate impairment losses are made for irrecoverable amount. In this regards, the directors of the Company considered that the Group's credit risk is significantly reduce.

In respective of loan receivable from money lending business, the directors of the Company has delegate a team responsible for determination of credit limits, credit approvals and other monitoring procedures for granting the loans and to ensure that follow-up action is taken to recover overdue loans receivables, if any. In addition, the Group reviews the recoverable amount of each individual loan receivable periodically to ensure that adequate impairment losses are made for irrecoverable loans. In this regard, the directors of the Company consider that the Group's loans receivables credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group does not have any other significant concentration of credit risk.

## 35. FINANCIAL INSTRUMENTS *(continued)*

### (b) Financial risk management objectives and policies *(continued)*

***Market risk***

*(i) Currency risk*

Foreign currency risk management

The Group's exposure to currency risk mainly arises from fluctuation of foreign currencies against the functional currency of relevant group entities, including Renminbi (RMB), US dollar (US$) and Hong Kong dollar (HK$).

The functional currencies of the Group's principal subsidiaries are HK$, US$ and RMB. While most of the Group's operations are transacted in the functional currency of the respective group entities, the Group undertakes certain sales and purchase transactions denominated in US$ and HK$. Hence, exposures to exchange rate fluctuations arises. The Group currently does not formulate any hedging policies against its exposure to currency risk. The Group will manage its foreign currency risk by closely monitoring the movement of the foreign currency rate and buying foreign currency forward contracts if it considers the risk to be significant.

At the end of the reporting period, the carrying amounts of the Group's significant monetary assets and monetary liabilities denominated in currencies other than the functional currency of relevant group entity are as follow:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Monetary Assets** | | |
| RMB | **140** | 559 |
| US$ | **12,217** | 10,138 |
| HK$ | **2,035** | 2,811 |
| **Monetary Liabilities** | | |
| HK$ | **4** | – |

## 35. FINANCIAL INSTRUMENTS *(continued)*

### (b) Financial risk management objectives and policies *(continued)*

***Market risk** (continued)*

*(i) Currency risk (continued)*

Sensitivity analysis

The Group is mainly exposed to the fluctuation of RMB, US$, HK$

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currency monetary assets and liabilities. No sensitivity analysis is presented for HKD against USD as HKD is pegged to USD. 5% (2017: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates. A negative (positive) number below indicates an increase (a decrease) in loss before tax for the year where the functional currency of the relevant group entity strengthen 5% (2017: 5%) against the relevant foreign currency. For a 5% (2017: 5%) weakening of the functional currency of the relevant group entity against the relevant foreign currency, there would be an equal and opposite impact on loss before tax for the year.

| | **RMB impact** | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Monetary assets and liabilities | **7** | (28) |

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

*(ii) Interest rate risk*

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk in relation to cash and margin clients receivables (see note 23), variable-rate borrowings (see note 28) and bank balances (general accounts) (see note 26).

The Group currently does not have any interest rate hedging policy in relation to fair value interest rate risk and cash flow interest rate risk. The directors monitor the Group's exposures on an ongoing basis and will consider hedging the interest rate should the need arises.

## 35. FINANCIAL INSTRUMENTS *(continued)*

### (b) Financial risk management objectives and policies *(continued)*

***Market risk*** *(continued)*

*(ii) Interest rate risk (continued)*

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for cash and margin clients receivables, variable-rate borrowings and bank balances (general accounts) at the end of the reporting period. The sensitivity analysis is prepared assuming the variable-rate financial instruments outstanding at the end of the reporting period were outstanding for the whole year.

As at 31 December 2018, if the interest rate had been 10 basis points (2017: 10 basis points) higher/lower and all other variables were held constant, the Group's loss after taxation would decrease/increase by HK$390,000 (2017: HK$446,000).

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bonds and term loan (see note 28 for details of these bonds).

*(iii) Equity price risk*

The Group is exposed to equity price risk through its investments in equity securities measured at FVTPL (2017: held-for-trading investments). The Group's equity price risk is concentrated on equity instruments quoted on the Stock Exchange. The management manages the exposure to price risk by maintaining a portfolio of investments with different risk and return profiles.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date. For sensitivity analysis purpose, the sensitivity rate at 20% is applied as a result of the volatile financial market.

If the price of the respective held-for-trading investments had been 20% (2017: 20%) lower, the Group's loss after taxation would increase by HK$7,775,000 (2017: the Group's loss after taxation would decrease by HK$11,457,000).

In management's opinion the sensitivity analysis was unrepresentative of the inherent equity price risk as the year end exposure does not reflect the exposure during the year.

***Liquidity risk***

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and bonds and ensures compliance with loan covenants.

## 35. FINANCIAL INSTRUMENTS *(continued)*

### (b) Financial risk management objectives and policies *(continued)*

***Liquidity risk** (continued)*

The following tables detail the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed settlement dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

For derivative financial instruments settled on a net basis, undiscounted net cash flows are presented. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

| | Weighted average interest rate | On demand or less than 1 month *HK$'000* | 31-90 days *HK$'000* | 91-365 days *HK$'000* | 2-5 years *HK$'000* | Over 5 years *HK$'000* | Total undiscounted cash flows *HK$'000* | Carrying amounts *HK$'000* |
|---|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | | |
| Non-derivative financial liabilities | | | | | | | | |
| Trade and other payables | – | 13,987 | 4,644 | 6,507 | – | – | 25,138 | 25,138 |
| Variable rate – borrowings | 2.32% | 8,418 | – | – | – | – | 8,418 | 8,418 |
| Fixed rate – term loan | 13.00% | 20,000 | – | – | – | – | 20,000 | 20,000 |
| Bonds | 6.00% | – | – | 53,412 | 213,648 | 974,930 | 1,241,990 | 798,902 |
| | | 42,405 | 4,644 | 59,919 | 213,648 | 974,930 | 1,295,546 | 852,458 |

| | Weighted average interest rate | On demand or less than 1 month *HK$'000* | 31-90 days *HK$'000* | 91-365 days *HK$'000* | 2-5 years *HK$'000* | Over 5 years *HK$'000* | Total undiscounted cash flows *HK$'000* | Carrying amounts *HK$'000* |
|---|---|---|---|---|---|---|---|---|
| 2017 | | | | | | | | |
| Non-derivative financial liabilities | | | | | | | | |
| Trade and other payables | – | 116,712 | 3,241 | 10,247 | – | – | 130,200 | 130,200 |
| Variable rate – borrowings | 2.90% | 9,384 | – | – | – | – | 9,384 | 9,384 |
| Bonds | 5.34% | – | – | 103,372 | 200,064 | 938,177 | 1,241,613 | 827,720 |
| | | 126,096 | 3,241 | 113,619 | 200,064 | 938,177 | 1,381,197 | 967,304 |

## 35. FINANCIAL INSTRUMENTS *(continued)*

### (b) Financial risk management objectives and policies *(continued)*

***Liquidity risk*** *(continued)*

Bank loans and a term loan with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2018 and 31 December 2017, the aggregate undiscounted principal amounts of these bank loans amounted to HK$28,418,000 and HK$9,384,000, respectively. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks and lender will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans and a term loan will be repaid after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details at which are set out in below table:

| | Weighted average interest rate | On demand or less than 1 month HK$'000 | 31-90 days HK$'000 | 91-365 days HK$'000 | 2-5 years HK$'000 | Over 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amounts HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Variable rate – borrowings | 2.32% | 5,044 | 46 | 206 | 1,099 | 2,772 | 9,167 | 8,418 |
| Fixed rate – term loan | 13.00% | 216 | 432 | 21,080 | – | – | 21,728 | 20,000 |
| 2017 | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Variable rate – borrowings | 2.90% | 5,110 | 319 | 671 | 2,340 | 1,301 | 9,741 | 9,384 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

### (c) Fair value

The fair values of financial assets and financial liabilities measured other than fair value are determined in accordance with discounted cash flow analysis.

## 35. FINANCIAL INSTRUMENTS *(continued)*

### (c) Fair value *(continued)*

***Fair value measurement of financial assets and financial liabilities***

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

| Financial assets/ financial liabilities | Fair value as at 31 December 2018 | Fair value as at 31 December 2017 | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| Contingent consideration | – | HK$10,249,000 | Level 3 | Discounted cash flow.<br><br>Discount rate |
| Listed equity investment held for trading | 56,203,000 | HK$68,604,000 | Level 1 | Quoted bid prices in an active market |
| Unlisted investment funds | 9,644,000 | – | Level 3 | Adjusted net asset value |

There were no transfers between Levels 1 and 2 in the current year.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

### (d) Financial asset and financial liabilities offsetting

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that are either:

– offset in the Group's consolidated statement of financial position; or

– not offset in the consolidated statement of financial position as the offsetting criteria are not met.

Under the agreement of continuous net settlement made between the Group and the clearing house, the Group has a legal enforceable right to set off the money obligations receivable and payable with clearing house on the same settlement date and the Group intends to settle on a net basis.

In addition, the Group has a legally enforceable right to set off the trade receivables from and payables to securities brokerage business that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

## 35. FINANCIAL INSTRUMENTS *(continued)*

### (d) Financial asset and financial liabilities offsetting *(continued)*

Except for balances which are due to be settled on the same date which are being offset, amounts due from/to the clearing house and trade receivables from and payables to securities brokerage business that are not to be settled on the same date, financial collateral including cash and securities received by the Group, deposit placed with clearing house do not meet the criteria for offsetting in the consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

| | Gross amounts of recognised as financial assets after impairment | Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position | Net amounts of financial assets presented in the consolidated statement of financial position | Related amounts not offset in consolidated statement of financial position | | Net amounts |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Collateral received | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **2018** | | | | | | |
| **Financial assets** | | | | | | |
| Amounts due from clearing house and trade receivables from securities brokerage business | 382,143 | (206,130) | 176,013 | – | (165,111) | 10,902 |
| Statutory deposits placed with clearing house | 205 | – | 205 | (205) | – | – |

| | Gross amount of recognised as financial liabilities | Gross amounts of recognised financial assets set off in the consolidated statement of financial position | Net amounts of financial liabilities presented in the consolidated statement of financial position | Related amounts not offset in consolidated statement of financial position | | Net amounts |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Collateral received | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **2018** | | | | | | |
| **Financial liabilities** | | | | | | |
| Amounts due to clearing house and trade payables from securities brokerage business | 257,952 | (206,130) | 51,822 | (38,550) | – | 13,272 |

## 35. FINANCIAL INSTRUMENTS *(continued)*

### (d) Financial asset and financial liabilities offsetting *(continued)*

| | Gross amounts of recognised as financial assets after impairment | Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position | Net amounts of financial assets presented in the consolidated statement of financial position | Related amounts not offset in consolidated statement of financial position | | |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Collateral received | Net amounts |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **2017** | | | | | | |
| Financial assets | | | | | | |
| Amounts due from clearing house and trade receivables from securities brokerage business | 178,098 | (884) | 177,214 | – | (154,327) | 22,887 |
| Statutory deposits placed with clearing house | 230 | – | 230 | (230) | – | – |

| | Gross amount of recognised as financial liabilities | Gross amounts of recognised financial assets set off in the consolidated statement of financial position | Net amounts of financial liabilities presented in the consolidated statement of financial position | Related amounts not offset in consolidated statement of financial position | | |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Collateral received | Net amounts |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **2017** | | | | | | |
| Financial liabilities | | | | | | |
| Amounts due to clearing house and trade payables from securities brokerage business | 37,279 | (884) | 36,395 | (39,379) | – | (2,984) |

*Note:* The cash and financial collateral received/pledged as at 31 December 2018 and 2017 represent their fair values.

## 36. RELATED PARTY DISCLOSURES

During the year, the Group had transactions with the directors of the Company or its related parties. The transactions during the year, are as follows:

**(a)** Transaction with its related party:

| Name of party | Nature of transaction | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| Mr. Lai Kin Chung, Kenneth *(note i)* | Interest income from a director | 36,126 | – |

**(b) Compensation of key management personnel**

The remuneration of key management during the year are as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Short-term employee benefits | 3,204 | 8,707 |

The remuneration of directors was decided by the board of directors, which is reviewed by the Remuneration Committee, having regard to the performance of the individuals and market trends.

*Notes:*

i. Mr. Lai Kin Chung, Kenneth has resigned as an executive Director on 28 January 2019.

## 37. OPERATING LEASE COMMITMENTS AND ARRANGEMENTS

### The Group as lessee

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Minimum lease payments paid under operating leases during the year | **5,009** | 4,686 |

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within one year | **5,445** | 4,735 |
| In the second to fifth year inclusive | **10,611** | 1,050 |
| | **16,056** | 5,785 |

Operating lease payments represent rentals payable by the Group for certain of its office premises, lease properties and staff quarters. Leases are negotiated for an average term of two (2017: two) years.

### The Group as lessor

Property rental income earned during the year was HK$3,596,000 (2017: HK$4,162,000).

At the end of both reporting periods, the Group had contracted with tenants for the following future minimum lease payments:

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within one year | **3,062** | 2,956 |
| In the second to fifth year inclusive | **4,733** | 6,494 |
| | **7,795** | 9,450 |

## 38. COMMITMENT

At the end of both reporting periods, the Group had contracted for but not provided in the consolidated financial statements:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital expenditure in respect of the formation of an investment | **423,716** | 414,790 |

## 39. RETIREMENT BENEFITS SCHEME

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes a certain percentage of the relevant payroll costs to the scheme.

The employees of the Company's subsidiaries in the PRC and Taiwan are members of the state-managed retirement benefit schemes and defined contribution plan operated by the PRC and Taiwan government, respectively. The PRC and Taiwan subsidiaries are required to contribute a certain percentage of payroll costs to the respective retirement benefit schemes and defined contribution plan to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes and defined contribution plan is to make the specified contributions.

The total cost of HK$1,510,000 (2017: HK$2,146,000) charged to the consolidated statement of profit or loss and other comprehensive income represents contributions paid or payable by the Group for the year.

## 40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company at 31 December 2018 and 2017 are as follows:

| | Notes | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|---|
| Non-current asset | | | |
| Investment in subsidiaries | | **304,971** | 304,971 |
| Current assets | | | |
| Other receivables & prepayments | | **1,686** | 1,690 |
| Amounts due from subsidiaries | *(a)* | **2,071,075** | 2,281,418 |
| Bank balances | | **14,510** | 63,495 |
| | | **2,087,271** | 2,346,603 |
| Current liabilities | | | |
| Other payables | | **33,891** | 30,604 |
| Taxation payable | | **1,456** | 404 |
| Amounts due to subsidiaries | *(a)* | **506,526** | 532,829 |
| | | **541,873** | 563,837 |
| Net current assets | | **1,545,398** | 1,782,766 |
| Total assets less current liabilities | | **1,850,369** | 2,087,737 |
| Capital and reserves | | | |
| Share capital | | **690,968** | 690,968 |
| Reserves | *(b)* | **360,499** | 621,050 |
| Total equity | | **1,051,467** | 1,312,018 |
| Non-current liability | | | |
| Bonds | | **798,902** | 775,719 |
| | | **1,850,369** | 2,087,737 |

## 40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

*Notes:*

***(a) Amount(s) due from (to) subsidiaries***

The amounts are unsecured, interest-free and repayable on demand.

***(b) Reserves***

| | Share premium HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Capital redemption reserve HK$'000 | Accumulated profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2017 | 352,753 | 244,461 | 3,341 | 1,270 | 3,231 | 605,056 |
| Profit for the year | – | – | – | – | 15,994 | 15,994 |
| Lapsed of share options | – | – | (3,341) | – | 3,341 | – |
| At 31 December 2017 | 352,753 | 244,461 | – | 1,270 | 22,566 | 621,050 |
| Loss for the year | – | – | – | – | (260,551) | (260,551) |
| At 31 December 2018 | 352,753 | 244,461 | – | 1,270 | (237,985) | 360,499 |

## 41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2018 and 2017 are as follows:

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued share capital/registered capital held by the Company: Directly 2018 % | Directly 2017 % | Indirectly 2018 % | Indirectly 2017 % | Principal activities *(note i)* |
|---|---|---|---|---|---|---|---|
| 中山隆成啟航商貿有限公司 | PRC | US$6,240,000 Registered Capital | **–** | – | **100** | 100 | Manufacturing and trading of medical products |
| Lerado H.K. Limited | HK | HK$5,000 Ordinary Share | **–** | – | **100** | 100 | Trading of medical products |
| BlackMarble Capital Limited | HK | HK$1 Ordinary Share | **–** | – | **100** | 100 | Money lending |
| Oriental Strategic Limited | BVI | US$50,000 Ordinary Share | **100** | 100 | **–** | – | Investment holding |
| Brilliant Summit Limited | HK | HK$10,000 Ordinary Share | **–** | – | **100** | 100 | Trading of garment accessories |
| Lerado Group Limited | BVI | HK$10,702 Ordinary Share | **100** | 100 | **–** | – | Investment holding |
| Wonder Time Holdings Limited | BVI | HK$1 Ordinary Share | **–** | – | **100** | 100 | Trading of held-for-trading investments |
| Shanghai Lerado Co. Ltd. | PRC | US$6,260,000 Registered Capital | **–** | – | **100** | 100 | Manufacturing and trading of nursery products |

## 40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued share capital/registered capital held by the Company Directly 2018 % | Directly 2017 % | Indirectly 2018 % | Indirectly 2017 % | Principal activities *(note i)* |
|---|---|---|---|---|---|---|---|
| 廣州凱潤企業管理服務有限公司 | PRC | US$5,000,000 Registered Capital | – | – | 100 | 100 | Property holding |
| 駿勝世紀科技(深圳)有限公司 | PRC | RMB1,000,000 Registered Capital | – | – | 100 | 100 | Research and development for electric scooters, wheels |
| Black Marble Securities Limited | HK | HK$330,000,000 Ordinary Share | – | – | 100 | 100 | Securities brokerage, margin financing and underwriting and placements |
| Black Marble Global Investment Fund SPC *(note ii)* | Cayman Islands | N/A | – | – | 100 | 100 | Investment fund |
| Smart Success International Enterprises Limited | HK | HK$1 Ordinary Share | – | – | 100 | 100 | Investment holding |
| Lerado Finance Limited | HK | HK$1 Ordinary Share | – | – | 100 | 100 | Money lending |
| First Platform International Limited | BVI | HK$1 Ordinary Share | 100 | 100 | – | – | Investment holding |
| Genuine Oriental Wealth Management Limited | HK | HK$1 Ordinary Share | – | – | 80 | 80 | Insurance brokerage |

*Note:*

(i) The principal activities of the subsidiaries are carried out in the place of incorporation/establishment.

(ii) The Group had consolidated a structured entity which includes asset management products. For the asset management products where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of the asset management products that is of such significance that it indicates that the Group is a principal.

Third-party interests in consolidated structured entities consist of third-party unit/shareholders' interests in consolidated structured entities which are reflected as a liability since they can be put back to the Group for cash. The realisation of net assets attributable to third-party unit/shareholders' interests in consolidated structured entities cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds that are subject to the actions of third-party unit holders. There is no third-party interests in the consolidated structured entities as at 31 December 2018.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# Financial Summary

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | **2018** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| REVENUE | 154,676 | 176,731 | 221,811 | 224,221 | **246,313** |
| PROFIT (LOSS) BEFORE TAXATION | (17,307) | 364,170 | (225,280) | 611,959 | **(64,151)** |
| INCOME TAX EXPENSE | (373) | (68,970) | (21,177) | 76,959 | **(3,509)** |
| PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS | (17,680) | 295,200 | (246,457) | (535,000) | **(67,660)** |
| PROFIT (LOSS) FOR THE YEAR FROM DISCONTINUED OPERATION | (128,316) | 291,524 | – | – | **–** |
| PROFIT (LOSS) FOR THE YEAR | (145,996) | 586,724 | (246,457) | (535,000) | **(67,660)** |
| ATTRIBUTABLE TO: | | | | | |
| OWNERS OF THE COMPANY | (145,996) | 586,815 | (246,457) | (534,962) | **(68,090)** |
| NON-CONTROLLING INTERESTS | – | (91) | – | (38) | **430** |
| | (145,996) | 586,724 | (246,457) | (535,000) | **(67,660)** |

## ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | **2018** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| TOTAL ASSETS | 1,071,816 | 2,418,080 | 2,496,189 | 2,292,224 | **2,196,739** |
| TOTAL LIABILITIES | (438,950) | (643,450) | (671,390) | (995,186) | **(1,002,212)** |
| | 632,866 | 1,774,630 | 1,824,799 | 1,297,038 | **1,194,527** |
| EQUITY ATTRIBUTABLE TO: | | | | | |
| OWNERS OF THE COMPANY | 632,866 | 1,774,721 | 1,824,799 | 1,296,838 | **1,193,897** |
| NON-CONTROLLING INTERESTS | – | (91) | – | 200 | **630** |
| | 632,866 | 1,774,630 | 1,824,799 | 1,297,038 | **1,194,527** |

*Note:* The financial information for years ended 31 December 2013 and 2012 has been restated for the operation discontinued in 2014.